

Gerdau S.A.

Consolidated Financial Statements Together with
Report of Independent Public Accountants

December 31, 2000 and 1999

Report of Independent Public Accountants

(Translation of the report originally issued in Portuguese.
See Note 23 to the financial statements.)

To the Management and Shareholders 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, 2000 and 1999, 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 in Brazil 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 significant 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, 2000 and 1999, 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) Our audits were conducted with the purpose of expressing an opinion on the financial statements referred to in paragraph (1) above taken as a whole. The supplementary information contained in tables I and II, corresponding to the statements of value added and cash flows, 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, January 31, 2001

ARTHUR ANDERSEN S/C

Carlos Biedermann
Engagement Partner

GERDAU S.A.

BALANCE SHEETS—DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

A S S E T S

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|-------------|---------------------|-------------|
| | <u>2000</u> | <u>1999</u> | <u>2000</u> | <u>1999</u> |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents, and temporary cash investments | 188,188 | 216,716 | 704,169 | 694,862 |
| Trade accounts receivable | 389,797 | 301,795 | 708,920 | 587,008 |
| Inventories | 436,917 | 405,587 | 979,732 | 891,358 |
| Advances to employees | 15,919 | 12,990 | 18,238 | 15,347 |
| Tax credits | 29,251 | 14,696 | 51,400 | 36,276 |
| Deferred income and social contribution taxes | 18,028 | 7,222 | 31,069 | 19,743 |
| Other receivables | 32,094 | 14,668 | 64,104 | 51,242 |
| | ----- | ----- | ----- | ----- |
| Total current assets | 1,110,194 | 973,674 | 2,557,632 | 2,295,836 |
| | ----- | ----- | ----- | ----- |
| NONCURRENT ASSETS: | | | | |
| Associated companies | 18,422 | - | 17,094 | - |
| Eletrobrás loans | 12,173 | 11,882 | 17,085 | 16,559 |
| Deferred income and social contribution taxes | 22,809 | 26,216 | 45,896 | 30,245 |
| Compulsory deposits and other receivables | 63,562 | 49,224 | 117,060 | 124,130 |
| | ----- | ----- | ----- | ----- |
| Total noncurrent assets | 116,966 | 87,322 | 197,135 | 170,934 |
| | ----- | ----- | ----- | ----- |
| PERMANENT ASSETS: | | | | |
| Investments | 1,600,614 | 1,273,266 | 280,215 | 237,392 |
| Property, plant and equipment | 1,629,641 | 1,604,912 | 3,848,751 | 3,632,411 |
| Deferred charges | 12,362 | 16,786 | 21,815 | 25,145 |
| | ----- | ----- | ----- | ----- |
| Total permanent assets | 3,242,617 | 2,894,964 | 4,150,781 | 3,894,948 |
| | ----- | ----- | ----- | ----- |
| Total assets | 4,469,777 | 3,955,960 | 6,905,548 | 6,361,718 |
| | ===== | ===== | ===== | ===== |

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

GERDAU S.A.

BALANCE SHEETS—DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|-------------|---------------------|-------------|
| | <u>2000</u> | <u>1999</u> | <u>2000</u> | <u>1999</u> |
| CURRENT LIABILITIES | | | | |
| Trade accounts payable | 92,698 | 77,987 | 313,444 | 310,384 |
| Loans and financing | 571,537 | 392,217 | 1,461,245 | 1,290,633 |
| Debentures | 4,719 | 4,481 | 4,719 | 4,481 |
| Taxes payable | 54,542 | 52,072 | 58,892 | 67,864 |
| Deferred income and social contribution taxes | 8,206 | 6,204 | 12,974 | 6,365 |
| Salaries payable | 37,153 | 35,107 | 83,129 | 72,014 |
| Proposed dividends/interest on capital | 71,220 | 52,768 | 71,305 | 52,768 |
| Other payables | 27,616 | 24,143 | 125,536 | 99,253 |
| | ----- | ----- | ----- | ----- |
| Total current liabilities | 867,691 | 644,979 | 2,131,244 | 1,903,762 |
| | ----- | ----- | ----- | ----- |
| LONG-TERM LIABILITIES | | | | |
| Loans and financing | 775,354 | 813,634 | 1,498,594 | 1,454,186 |
| Associated companies | - | 51,962 | - | 52,018 |
| Debentures | 221,643 | 146,006 | 221,643 | 146,006 |
| Reserve for contingencies | 112,507 | 139,014 | 124,709 | 148,808 |
| Deferred income and social contribution taxes | 28,757 | 38,366 | 289,197 | 251,423 |
| Other payables | 98,618 | 58,901 | 192,277 | 177,475 |
| | ----- | ----- | ----- | ----- |
| Total long-term liabilities | 1,236,879 | 1,247,883 | 2,326,420 | 2,229,916 |
| | ----- | ----- | ----- | ----- |
| DEFERRED INCOME | - | - | - | 52,247 |
| NON-CONTROLLING SHAREHOLDERS' INTEREST | - | - | 82,677 | 112,695 |
| SHAREHOLDERS' EQUITY | | | | |
| Capital | 1,320,133 | 1,316,881 | 1,320,133 | 1,316,881 |
| Capital reserves | 221,150 | 186,849 | 221,150 | 186,849 |
| Profit reserves | 823,924 | 559,368 | 823,924 | 559,368 |
| | ----- | ----- | ----- | ----- |
| Total shareholders' equity | 2,365,207 | 2,063,098 | 2,365,207 | 2,063,098 |
| | ----- | ----- | ----- | ----- |
| SHAREHOLDERS' EQUITY INCLUDING NON-CONTROLLING SHAREHOLDERS | - | - | 2,447,884 | 2,175,793 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' equity | 4,469,777 | 3,955,960 | 6,905,548 | 6,361,718 |
| | ===== | ===== | ===== | ===== |

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

GERDAU S.A.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|-------------|---------------------|-------------|
| | <u>2000</u> | <u>1999</u> | <u>2000</u> | <u>1999</u> |
| GROSS SALES REVENUE | 3,583,840 | 2,760,000 | 6,226,479 | 4,048,519 |
| Taxes on sales | (678,213) | (522,344) | (745,657) | (591,210) |
| Freight and discounts | (109,139) | (89,069) | (284,724) | (147,291) |
| | ----- | ----- | ----- | ----- |
| NET SALES REVENUE | 2,796,488 | 2,148,587 | 5,196,098 | 3,310,018 |
| COST OF SALES | (1,915,259) | (1,366,645) | (3,857,864) | (2,229,744) |
| | ----- | ----- | ----- | ----- |
| GROSS PROFIT | 881,229 | 781,942 | 1,338,234 | 1,080,274 |
| SELLING EXPENSES | (177,226) | (118,693) | (219,987) | (152,661) |
| FINANCIAL EXPENSES | (279,578) | (446,065) | (495,260) | (543,521) |
| FINANCIAL INCOME | 43,779 | 89,773 | 106,291 | 112,819 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| Management compensation | (6,939) | (4,866) | (10,354) | (5,985) |
| General expenses | (224,604) | (196,853) | (387,870) | (284,351) |
| EQUITY IN SUBSIDIARIES AND ASSOCIATED COMPANIES | 197,817 | 254,343 | 69,851 | 185,973 |
| OTHER OPERATING INCOME | 9,600 | 10,443 | 57,328 | 13,428 |
| | ----- | ----- | ----- | ----- |
| INCOME FROM OPERATIONS | 444,078 | 370,024 | 458,233 | 405,976 |
| NONOPERATING INCOME (EXPENSE) | (6,544) | (5,922) | 6,940 | (11,669) |
| | ----- | ----- | ----- | ----- |
| INCOME BEFORE TAXES AND INTEREST | 437,534 | 364,102 | 465,173 | 394,307 |
| PROVISION FOR INCOME AND SOCIAL CONTRIBUTION TAXES | | | | |
| Current | (52,659) | (19,193) | (55,610) | (39,425) |
| Deferred | 15,006 | 12,708 | (3,691) | 1,639 |
| DIRECTORS' INTEREST | (6,939) | (4,866) | (7,779) | (4,866) |
| | ----- | ----- | ----- | ----- |
| NET INCOME | 392,942 | 352,751 | 398,093 | 351,655 |
| | ===== | ===== | ===== | ===== |
| NON-CONTROLLING SHAREHOLDERS' INTEREST | - | - | 5,151 | (1,096) |
| CONTROLLING SHAREHOLDERS' INTEREST | - | - | 392,942 | 352,751 |
| Earnings per thousand shares - R\$ | 3.46 | 6.22 | | |
| | ===== | ===== | | |
| Book value per thousand shares - R\$ | 20.84 | 36.36 | | |
| | ===== | ===== | | |

The accompanying notes are an integral part of these statements.

GERDAU S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

| | Capital reserves | | | | | Profit reserves | | | Total shareholders' equity | |
|---|------------------|---------------------|-------------------|--------------------------|--------|-----------------|-------------------|---------------------------------|----------------------------|-------------------|
| | Capital | Capital restatement | Investment grants | Special Law No. 8,200/91 | Other | Legal | Unrealized profit | Investments And working capital | | Retained earnings |
| 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 Shareholders' Meeting | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | 17,637 | - | - | (17,637) | - |
| Unrealized profit reserve | - | - | - | - | - | - | 28,667 | - | (28,667) | - |
| Investments and working capital reserve | - | - | - | - | - | - | - | 208,509 | (208,509) | - |
| Interest on capital – first semester | | | | | | | | | | |
| R\$0.6300 per thousand common shares | - | - | - | - | - | - | - | - | (12,405) | (12,405) |
| R\$0.6930 per thousand preferred shares | - | - | - | - | - | - | - | - | (25,625) | (25,625) |
| Interest on capital – second semester | | | | | | | | | | |
| R\$0.9910 per thousand common shares | - | - | - | - | - | - | - | - | (19,514) | (19,514) |
| R\$1.0901 per thousand preferred shares | - | - | - | - | - | - | - | - | (40,394) | (40,394) |
| BALANCES DECEMBER 31, 1999 | 1,316,881 | 314 | 148,764 | 21,487 | 16,284 | 47,812 | 28,667 | 482,889 | - | 2,063,098 |

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| | | | | | | | | | | |
|--|-----------|-------|---------|--------|--------|---------|---------|---------|-----------|-----------|
| BALANCES DECEMBER 31, 1999 | 1,316,881 | 314 | 148,764 | 21,487 | 16,284 | 47,812 | 28,667 | 482,889 | - | 2,063,098 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Capital increase due to incorporation of reserve | 3,252 | - | - | - | - | (3,252) | - | - | - | - |
| Investment grants | - | - | 22,720 | - | 11,581 | - | - | - | - | 34,301 |
| Net income | - | - | - | - | - | - | - | - | 392,942 | 392,942 |
| Realization and reversal of reserves | - | - | - | - | - | - | (8,212) | - | 8,212 | - |
| Allocations proposed to Shareholders' Meeting | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | 19,647 | - | - | (19,647) | - |
| Investments and working capital reserve | - | - | - | - | - | - | - | 256,373 | (256,373) | - |
| Interest on capital – first semester | | | | | | | | | | |
| R\$0.3730 per thousand common shares | - | - | - | - | - | - | - | - | (14,689) | (14,689) |
| R\$40.4130 per thousand preferred shares | - | - | - | - | - | - | - | - | (30,407) | (30,407) |
| | | | | | | | | | | |
| R\$0.6620 per thousand common shares | - | - | - | - | - | - | - | - | (26,071) | (26,071) |
| R\$0.7282 per thousand preferred shares | - | - | - | - | - | - | - | - | (53,967) | (53,967) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| BALANCES DECEMBER 31, 2000 | 1,320,133 | 314 | 171,484 | 21,487 | 27,865 | 64,207 | 20,455 | 739,262 | - | 2,365,207 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

GERDAU S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

| | Company | | Consolidated | |
|---|-----------|-----------|--------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| SOURCE OF FUNDS | | | | |
| From operations: | | | | |
| Net income | 392,942 | 352,751 | 398,093 | 351,655 |
| Items not affecting working capital: | | | | |
| Depreciation and amortization | 171,604 | 120,517 | 340,083 | 198,199 |
| Negative goodwill amortization | - | - | (65,320) | - |
| Cost of permanent assets disposal | 39,329 | 16,858 | 48,563 | 21,201 |
| Equity in subsidiaries and associated companies | (197,817) | (254,343) | (69,851) | (185,973) |
| Monetary variations on long-term liabilities | 47,258 | 153,815 | 56,660 | 154,784 |
| Monetary variations on noncurrent assets | (3,914) | (5,252) | (5,263) | (5,844) |
| | 449,402 | 384,346 | 702,965 | 534,022 |
| From third parties: | | | | |
| Capital increase / sale of treasury shares | - | 6,153 | - | 6,153 |
| Contributions received for capital reserves | 34,301 | 29,596 | 34,374 | 29,605 |
| Increase (decrease) in long-term liabilities | (58,262) | 331,948 | (21,195) | 519,369 |
| Working capital of merged company | - | 94,792 | - | - |
| Working capital of consolidated companies | - | - | - | 27,163 |
| Effect of exchange on working capital of companies abroad | - | - | 1,531 | (19,720) |
| Effect of gain on interest in working capital of associated companies | - | - | 1,501 | - |
| Dividends not included in income | 18,508 | 17,160 | - | - |
| | 443,949 | 863,995 | 719,176 | 1,096,592 |
| USE OF FUNDS | | | | |
| In investments | 163,633 | 354,138 | 112,278 | 610,949 |
| In property, plant and equipment | 215,558 | 399,086 | 429,415 | 571,885 |
| In deferred charges | 86 | - | 102 | 1,889 |
| Increase in noncurrent assets | 25,730 | 23,392 | 17,772 | 5,628 |
| Dividends / interest on capital | 125,134 | 97,938 | 125,295 | 97,938 |
| | 530,141 | 874,554 | 684,862 | 1,288,289 |
| INCREASE (DECREASE) IN WORKING CAPITAL | (86,192) | (10,559) | 34,314 | (191,697) |
| Working capital: | | | | |
| Beginning of year | 328,695 | 339,254 | 392,074 | 583,771 |
| End of year | 242,503 | 328,695 | 426,388 | 392,074 |
| INCREASE (DECREASE) IN WORKING CAPITAL | (86,192) | (10,559) | 34,314 | (191,697) |

The accompanying notes are an integral part of these statements.

GERDAU S.A.

STATEMENTS OF VALUE ADDED

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

| | Company | | | | Consolidated | | | | | |
|---|-------------|------|-------------|------|--------------|------|-------------|------|-------------|------|
| | 2000 | | 1999 | | Domestic | | Foreign | | Total | |
| | 2000 | % | 1999 | % | 2000 | % | 2000 | % | 2000 | % |
| INFLOW | | | | | | | | | | |
| Sales of products, services and other | 3,575,727 | | 2,748,851 | | 4,087,639 | | 2,209,413 | | 6.297.052 | |
| Financial income | 43,384 | | 89,773 | | 104,067 | | 1,823 | | 105.890 | |
| OUTFLOW | | | | | | | | | | |
| Raw materials and products | (1,570,475) | | (1,082,705) | | (1,711,148) | | (1,023,493) | | (2.734.641) | |
| Outside services | (301,474) | | (221,395) | | (366,099) | | (496,485) | | (862.584) | |
| GROSS VALUE ADDED | 1,747,162 | | 1,534,524 | | 2,114,459 | | 691,258 | | 2.805.717 | |
| (-) DEPRECIATION/AMORTIZATION | (171,604) | | (120,517) | | (204,554) | | (135,529) | | (340.083) | |
| NET VALUE ADDED | 1,575,558 | | 1,414,007 | | 1,909,905 | | 555,729 | | 2.465.634 | |
| VALUE ADDED FROM TRANSFERS | | | | | | | | | | |
| Equity in subsidiaries and associated companies | 129,600 | | 72,637 | | 246 | | 1,388 | | 1.634 | |
| UNDISTRIBUTED VALUE ADDED | 1,705,158 | 100% | 1,486,644 | 100% | 1,910,151 | 100% | 557,117 | 100% | 2.467.268 | 100% |

DISTRIBUTION OF VALUE ADDED

| | | | | | | | | | | |
|---------------------|-----------|-------|-----------|-------|-----------|-------|---------|-------|-----------|-------|
| Taxes | 741,251 | 43.6% | 548,788 | 36.9% | 800,405 | 41.9% | 66,648 | 12.0% | 867,053 | 35.1% |
| Federal | 323,980 | 19.2% | 229,367 | 15.4% | 360,390 | 18.9% | 58,646 | 10.5% | 419,036 | 17.0% |
| State | 409,863 | 24.0% | 312,554 | 21.0% | 431,429 | 22.6% | 5,578 | 1.0% | 437,007 | 17.7% |
| Municipal | 7,408 | 0.4% | 6,867 | 0.5% | 8,586 | 0.4% | 2,424 | 0.5% | 11,010 | 0.4% |
| Human Resources | 360,562 | 21.1% | 320,746 | 21.6% | 427,960 | 22.4% | 348,877 | 62.6% | 776,837 | 31.5% |
| Salaries | 213,393 | 12.5% | 194,921 | 13.1% | 251,833 | 13.2% | 268,938 | 48.3% | 520,771 | 21.1% |
| Payroll charges | 103,213 | 6.1% | 91,999 | 6.2% | 124,274 | 6.5% | 74,302 | 13.3% | 198,576 | 8.0% |
| Training | 7,337 | 0.4% | 3,930 | 0.3% | 7,874 | 0.4% | 1,943 | 0.3% | 9,817 | 0.4% |
| Profit sharing | 36,619 | 2.1% | 29,896 | 2.0% | 43,979 | 2.3% | 3,694 | 0.7% | 47,673 | 2.0% |
| Interest | 210,403 | 12.3% | 264,359 | 17.8% | 307,536 | 16.1% | 117,749 | 21.1% | 425,285 | 17.2% |
| Reinvested profits | 267,808 | 15.7% | 254,813 | 17.1% | 248,955 | 13.0% | 23,843 | 4.3% | 272,798 | 11.1% |
| Interest on capital | 125,134 | 7.3% | 97,938 | 6.6% | 125,295 | 6.6% | 0 | 0.0% | 125,295 | 5.1% |
| Total | 1,705,158 | | 1,486,644 | | 1,910,151 | | 557,117 | | 2,467,268 | |
| | ===== | | ===== | | ===== | | ===== | | ===== | |

The accompanying notes are an integral part of these statements.

GERDAU S.A.STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999(In thousands of Brazilian reais)(Translation of the original in Portuguese)

| | Consolidated | |
|--|--------------|-------------|
| | 2000 | 1999 |
| Net income | 398,093 | 351,655 |
| Income and social contribution taxes | 59,301 | 37,786 |
| Depreciation and amortization | 340,083 | 198,199 |
| Interest and non-cash monetary variations | (33,218) | 151,950 |
| Working capital variation | (186,257) | (198,965) |
| | ----- | ----- |
| Net cash from operating activity | 578,002 | 540,625 |
| | ----- | ----- |
| Purchase/disposal of property, plant and equipment | (371,515) | (557,133) |
| Increase in deferred charges | (102) | (1,889) |
| Purchase of investments | (112,278) | (610,949) |
| | ----- | ----- |
| Use of cash in investments | (483,895) | (1,169,971) |
| | ----- | ----- |
| Working capital financing | (98,443) | 141,173 |
| Long-term cash investments | 717,881 | 1,134,527 |
| Amortization of long-term financing | (590,413) | (319,366) |
| Treasury shares | - | 6,152 |
| Payment of dividends/interest and participation | (113,825) | (69,440) |
| | ----- | ----- |
| Net cash from financing activity | (84,800) | 893,046 |
| | ----- | ----- |
| Change in cash balance | 9,307 | 263,700 |
| | ===== | ===== |
| Cash – beginning of year | 694,862 | 421,861 |
| Beginning cash of companies consolidated during the year | - | 9,301 |
| Cash – end of year | 704,169 | 694,862 |

The accompanying notes are an integral
part of these statements.

GERDAU S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2000 AND 1999

(Amounts in thousands of Brazilian reais)

(Translation of the original in Portuguese)

1. OPERATIONS

Gerdau S/A is a Gerdau Group's company and its main activities are the production of common long and specialty steels and the marketing of steel products in general (flat and long steels), manufactured in a number of steel mills located in the main markets in Brazil, Uruguay, Chile, Canada, Argentina and the United States.

Gerdau has an installed capacity of 8 million tons of crude steel per year and produces steel in electric furnaces, using scrap and pig iron mostly acquired in the regions where the steel mills are located (mini-mill concept). Gerdau has also plants which produce steel using iron ore (in blast furnaces and with direct reduction), in addition to having an industrial unit exclusively for the production of specialty steel. It is the largest scrap recycling company in Latin America and ranks among the largest in the world.

The Company's most important market is the construction sector, which demands a high volume of rods and wire for concrete, ahead of the industrial sector, in which manufacturers of consumer goods, such as automobiles and home appliances and appliances for commercial use, basically use wire rods and profiles in a number of available specifications. An important consumer market is nails, staples and wires, largely used in the agricultural sector.

2. 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, 2000.

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

3. SIGNIFICANT ACCOUNTING PRACTICES

(a) Cash and cash equivalents, 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 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) 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 3d".

(e) Property, plant and equipment--stated at cost less respective depreciation. Depreciation is calculated under the straight-line method at the rates stated in Note 11, based on the estimated useful lives of the assets. Interest on loans for financing construction in progress is recorded at cost.

(f) 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.

(g) 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 August 20, 1998.

(h) Other current and long-term liabilities---stated at known or determinable amounts plus corresponding charges and monetary variations, whenever applicable.

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of December 31, 2000 and 1999 include the accounts of Gerdau S.A. and its direct and indirect subsidiaries listed below:

Florestal Itacambira S.A. (100%), Itaguaí Com. Imp. e Exp. Ltda. (99%), Seiva S.A. - Florestas e Indústrias (96%), 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 (72%), Sipar Aceros S.A. (38%), AmeriSteel Corporation (85%), Gerdau USA Inc. (100%), Aço Minas Gerais S.A. - Açominas (37%), Armafer Serviços de Construção Ltda. (100%), Prontofer Serviços de Construção Ltda. (100%), Gerdau Participações Ltda. (98%), Gerdau Internacional Empreendimentos Ltda. - Gerdau Group (99%) and Laminadora do Sul S.A. (99%).

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, the following operations were carried out:

- a) On October 18, 2000, 10% of AmeriSteel Corporation was acquired for R\$66,910,000.
- b) On April 3, 2000, 5.11% of Sipar Aceros S.A. was acquired for R\$2,834,000.
- c) On April 3, 2000, 4.77% of Sociedade Industrial Puntana S/A – SIPSA was acquired for R\$386,000.
- d) On December 7, 2000, 0.82% of Aço Minas Gerais S.A. – Açominas shares was exchanged for Gerdau S.A. shares.

Thus, in accordance with article 32 of CVM Instruction No. 247, the financial statements of the jointly-controlled subsidiaries Sipar Aceros S.A. and Açominas Gerais S.A. – Açominas were consolidated proportionally to the indirect interest of the parent company on their capital.

For the financial statements as of December 1999 (for comparative purposes), the portion of Ameristeel Corporation's income was considered, based on the date of its recording as permanent investment (September 30, 1999).

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

| | AmeriSteel | | Açominas | | Sipar | |
|---|------------------|------------------|------------------|------------------|----------------|----------------|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Assets | | | | | | |
| Current assets | 433,508 | 410,824 | 635,624 | 360,242 | 78,370 | 99,708 |
| Noncurrent assets | 18,158 | 36 | 31,076 | 162,574 | 387 | - |
| Permanent assets | 693,227 | 627,053 | 2,603,241 | 2,615,057 | 29,712 | 30,388 |
| Total assets | 1,144,893 | 1,037,913 | 3,269,941 | 3,137,873 | 108,469 | 130,096 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Liabilities and shareholders' equity | | | | | | |
| Current liabilities | 132,877 | 275,982 | 642,523 | 550,095 | 25,703 | 40,746 |
| Long-term liabilities | 567,254 | 366,535 | 305,603 | 553,805 | 6,878 | 13,192 |
| Shareholders' equity | 444,762 | 395,396 | 2,321,815 | 2,033,973 | 75,888 | 76,158 |
| Total liabilities and shareholders' equity | 1,144,893 | 1,037,913 | 3,269,941 | 3,137,873 | 108,469 | 130,096 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

| Statement of income | AmeriSteel | | Açominas | | Sipar | |
|--|---------------|-------------------------|----------------|------------------|--------------|--------------|
| | 2000 | 4 th quarter | 2000 | 1999 | 2000 | 1999 |
| Net sales revenue | 1,322,893 | 291,902 | 991,302 | 786,404 | 96,194 | 102,030 |
| Cost of sales | (1,179,705) | (243,790) | (689,273) | (571,547) | (71,486) | (86,418) |
| Selling expenses | (15,766) | (3,505) | (29,510) | (26,834) | (12,576) | (6,163) |
| General and administrative expenses | (61,298) | (12,646) | (60,007) | (57,373) | (4,820) | (3,742) |
| Financial income (expenses) | (28,475) | (7,233) | (60,003) | (330,554) | (253) | (1,918) |
| Equity in subsidiaries and associated companies | - | - | 3,892 | (9,208) | - | - |
| Other operating income (expenses) | (5,354) | (1,964) | 39,240 | 21,290 | (209) | 887 |
| Nonoperating income (expense) | - | (4,159) | 3,095 | (224) | (2,065) | - |
| Provision for income and social contribution taxes | (16,392) | (9,832) | - | - | (1,851) | (1,637) |
| Net income (loss) | <u>15,903</u> | <u>8,773</u> | <u>198,736</u> | <u>(188,046)</u> | <u>2,934</u> | <u>3,039</u> |

Through its direct and 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:

| | 2000 | 1999 |
|---|---------|---------|
| Goodwill on the investments line | 235,947 | 216,249 |
| Goodwill on the property, plant and equipment line | 282,224 | 243,905 |
| Negative goodwill on the property, plant and equipment line | 381,564 | 388,730 |
| Negative goodwill on the deferred income line | - | 52,247 |

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

With the purpose of providing a better analysis of our business, we present the consolidated data per geographical area:

| | Consolidated | | | | | |
|-------------------------------------|--------------|-------------|-------------------|-----------|---------------|-----------|
| | Brazil | | South America (*) | | North America | |
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Gross sales revenue | 4,007,348 | 3,014,455 | 282,937 | 264,419 | 1,936,194 | 769,645 |
| Net sales revenue | 3,148,822 | 2,352,985 | 247,127 | 215,900 | 1,800,149 | 741,133 |
| Cost of sales | (2,131,478) | (1,488,903) | (181,318) | (159,646) | (1,545,068) | (581,195) |
| Gross profit | 1,026,344 | 864,082 | 65,809 | 56,254 | 246,081 | 159,938 |
| Selling expenses | (188,518) | (129,586) | (11,738) | (16,242) | (19,731) | (6,833) |
| Financial expenses, net | (273,043) | (390,422) | (27,233) | (13,850) | (88,693) | (26,430) |
| General and administrative expenses | (267,794) | (233,230) | (20,759) | (22,191) | (109,671) | (34,915) |
| Income from operations | 433,090 | 311,166 | 4,281 | 10,580 | 20,862 | 84,230 |
| Net income | 374,250 | 290,716 | 2,387 | 8,336 | 21,456 | 52,603 |
| EBITDA (**) | 755,333 | 639,720 | 49,984 | 30,664 | 254,789 | 290,526 |

(*) Operations in Brazil not included.

(**) Earnings before interest, taxes, depreciation and amortization.

5. CASH AND CASH EQUIVALENTS, AND TEMPORARY CASH INVESTMENTS

| | Company | | Consolidated | |
|----------------------------|---------|---------|--------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| Cash and cash equivalents | 22,344 | 5,953 | 25,487 | 18,014 |
| Investment fund | 165,844 | 210,763 | 253,352 | 266,222 |
| Fixed income securities | - | - | 350,574 | 337,428 |
| Variable income securities | - | - | 74,756 | 73,198 |
| | ----- | ----- | ----- | ----- |
| | 188,188 | 216,716 | 704,169 | 694,862 |
| | ===== | ===== | ===== | ===== |

Of the existing balance, R\$407,289,000 – consolidated (R\$415,349,000 – consolidated in 1999) refers to investments in US dollars.

6. CUSTOMERS

| | Company | | Consolidated | |
|---------------------------------|----------|----------|--------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| Domestic market | 365,826 | 279,774 | 386,523 | 294,842 |
| Foreign market | 47,858 | 35,982 | 81,526 | 57,539 |
| Customers of companies abroad | - | - | 281,167 | 250,626 |
| Allowance for doubtful accounts | (23,887) | (13,961) | (40,296) | (15,999) |
| | ----- | ----- | ----- | ----- |
| | 389,797 | 301,795 | 708,920 | 587,008 |
| | ===== | ===== | ===== | ===== |

Receivables from foreign market customers are restated based on the exchange rates in effect at the shipment date or balance sheet date, in case of non-shipment. The Company has also R\$51,956,000 (R\$35,998,000 - 1999) in vendor operations with Banco Gerdau S.A..

7. INVENTORIES

| | Company | | Consolidated | |
|-----------------------|---------|---------|--------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| Finished products | 163,995 | 86,156 | 463,302 | 329,108 |
| Work in process | 84,070 | 66,193 | 139,730 | 110,010 |
| Raw materials | 74,937 | 60,527 | 143,531 | 192,966 |
| Storeroom materials | 96,281 | 174,973 | 209,225 | 238,446 |
| Advances to suppliers | 17,634 | 17,738 | 23,944 | 20,828 |
| | ----- | ----- | ----- | ----- |
| | 436,917 | 405,587 | 979,732 | 891,358 |
| | ===== | ===== | ===== | ===== |

Inventories (Company and consolidated) are insured for R\$43,165,000 (R\$23,178,000 - 1999), against fire and overflowing. Coverage is determined based on the amounts and risks involved.

8. TAX CREDITS

| | Company | | Consolidated | |
|-----------------------|---------------|---------------|---------------|---------------|
| | 2000 | 1999 | 2000 | 1999 |
| ICMS (state VAT) | 12,765 | 9,324 | 13,754 | 10,053 |
| IPI (federal VAT) | 11,351 | 120 | 11,398 | 175 |
| Income tax | 1,758 | 1,823 | 15,448 | 3,582 |
| IVA (Value-Added Tax) | - | - | 7,423 | 19,037 |
| Other | 3,377 | 3,429 | 3,377 | 3,429 |
| | <u>29,251</u> | <u>14,696</u> | <u>51,400</u> | <u>36,276</u> |

9. INCOME AND SOCIAL CONTRIBUTION TAXES

| | Company | | | | | | | |
|----------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | Assets | | | | Liabilities | | | |
| | 2000 | | 1999 | | 2000 | | 1999 | |
| | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Deferred income tax | 12,502 | 19,384 | 6,701 | 18,903 | 7,332 | 27,346 | 5,921 | 35,145 |
| Deferred social contribution tax | 5,526 | 3,425 | 521 | 7,313 | 874 | 1,411 | 283 | 3,221 |
| | <u>18,028</u> | <u>22,809</u> | <u>7,222</u> | <u>26,216</u> | <u>8,206</u> | <u>28,757</u> | <u>6,204</u> | <u>38,366</u> |

| | Consolidated | | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------|----------------|
| | Assets | | | | Liabilities | | | |
| | 2000 | | 1999 | | 2000 | | 1999 | |
| | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Deferred income tax | 25,373 | 41,575 | 19,038 | 21,637 | 12,095 | 286,640 | 6,030 | 247,275 |
| Deferred social contribution tax | 5,696 | 4,321 | 705 | 8,608 | 879 | 2,557 | 335 | 4,148 |
| | <u>31,069</u> | <u>45,896</u> | <u>19,743</u> | <u>30,245</u> | <u>12,974</u> | <u>289,197</u> | <u>6,365</u> | <u>251,423</u> |

Taxes are recognized on the following basis:

| | Company | | Consolidated | |
|---|---------|---------|--------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| Assets | | | | |
| Tax loss for income tax | 41,635 | - | 49,311 | 8,663 |
| Social contribution tax loss carryforwards | 53,024 | 2,357 | 64,268 | 12,599 |
| Reserve for contingencies | 85,911 | 99,942 | 243,472 | 132,973 |
| Liabilities | | | | |
| Accelerated depreciation with tax incentives | 138,473 | 163,788 | 820,384 | 731,251 |
| Negative goodwill amortized in the accounting records | 238 | 238 | 136,444 | 71,124 |

Reconciliation

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Income before taxes and after interest | 430,595 | 359,236 | 457,394 | 389,441 |
| Nominal rate | 34% | 37% | 34% | 37% |
| Income and social contribution taxes at nominal rate | (146,402) | (132,917) | (155,514) | (144,093) |
| Effects of taxes on: | | | | |
| - rate difference at companies located abroad | - | - | 6,700 | 5,580 |
| - equity in subsidiaries and associated companies | 67,258 | 94,107 | 23,750 | 68,810 |
| - reduction in social contribution rate | (1,083) | - | (1,213) | - |
| - recovery of Açominas' deferred tax assets | - | - | 24,982 | - |
| - interest on capital | 42,546 | 36,237 | 42,587 | 36,237 |
| - permanent differences (net) | 28 | (6,410) | (593) | (5,277) |
| - other | - | 2,498 | - | 957 |
| Income and social contribution taxes on income | (37,653) | (6,485) | (59,301) | (37,786) |
| | ----- | ----- | ----- | ----- |
| Current | (52,659) | (19,193) | (55,610) | (39,425) |
| Deferred | 15,006 | 12,708 | (3,691) | 1,639 |

The variation between asset and liability balances for 2000 and those for 1999 (consolidated) is different from income and social contribution taxes on income due to the exchange variation observed in balance sheet accounts.

10. COMPULSORY DEPOSITS AND OTHER

| | Company | | Consolidated | |
|------------------------|---------|--------|--------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| Escrow deposits | 37,596 | 33,034 | 37,957 | 33,344 |
| Debtors under contract | 13,365 | 8,830 | 50,131 | 57,848 |
| Income tax incentives | 12,601 | 7,360 | 12,830 | 7,650 |
| Prepaid expenses | - | - | 16,142 | 25,288 |
| | ----- | ----- | ----- | ----- |
| | 63,562 | 49,224 | 117,060 | 124,130 |
| | ===== | ===== | ===== | ===== |

11. PROPERTY, PLANT AND EQUIPMENT

| | Annual depreciation rate % | Company | | Consolidated | |
|--|----------------------------|-------------|-------------|--------------|-------------|
| | | 2000 | 1999 | 2000 | 1999 |
| Land, buildings and constructions | 0 to 4 | 634,788 | 605,562 | 1,673,859 | 1,464,781 |
| Machinery, equipment and installations | 10 | 1,853,552 | 1,591,535 | 3,647,076 | 3,261,731 |
| Furniture and fixtures | 10 | 41,407 | 40,437 | 81,880 | 51,135 |
| Vehicles | 20 | 20,898 | 20,191 | 31,519 | 27,763 |
| EDP equipment | 20 | 130,299 | 117,258 | 135,992 | 124,770 |
| Construction in progress | - | 230,781 | 354,467 | 311,165 | 405,677 |
| Forestation/reforestation | - | 84,781 | 79,512 | 138,414 | 129,247 |
| Accumulated depreciation/depletion | - | (1,366,865) | (1,204,050) | (2,171,154) | (1,832,693) |
| | | ----- | ----- | ----- | ----- |
| | | 1,629,641 | 1,604,912 | 3,848,751 | 3,632,411 |
| | | ===== | ===== | ===== | ===== |

a) Insured amounts – property, plant and equipment are insured for R\$539,864,000 – Company and R\$552,933,000 – Consolidated (R\$438,887,000 – Company and R\$465,136,000 - Consolidated in 1999), against fire, electrical damages and explosion. Coverage is determined based on the amounts and risks involved.

b) Capitalization of interest and financial charges – during the year R\$8,699,000 - Company and R\$13,124,000 - Consolidated (R\$21,658,000 – Company and R\$23,225,000 – Consolidated in 1999) was capitalized.

c) Property, plant and equipment can be summarized as follows:

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 2000 | 1999 | 2000 | 1999 |
| Balance – beginning of year | 1,604,912 | 1,274,398 | 3,632,411 | 1,913,148 |
| (+) Beginning balance of companies consolidated in the year | - | - | - | 1,172,437 |
| (+) Purchases / sales in the year | 195,652 | 386,222 | 382,806 | 550,683 |
| (-) Cost of sales depreciation and depletion | (155,301) | (108,039) | (309,137) | (171,118) |
| (-) Administrative depreciation and depletion | (15,622) | (9,685) | (30,946) | (27,081) |
| (+) Increase in interest in consolidated companies | - | - | 22,920 | - |
| (+) Company merger | - | 62,016 | - | - |
| (+) Effect of exchange on fixed assets abroad | - | - | 150,697 | 194,342 |
| Balance – end of year | <u>1,629,641</u> | <u>1,604,912</u> | <u>3,848,751</u> | <u>3,632,411</u> |

In consolidated terms, the major investments are:

| | Amounts invested in 2000 |
|---|--------------------------|
| Brazil | |
| Dust removal / dust collection system - Gerdau Riograndense | 11,781 |
| Dust removal / dust collection system - Gerdau Guaira | 10,270 |
| Dust removal / dust collection system - Gerdau Aços Finos Piratini | 3,485 |
| Increase in galvanizing capacity in Gerdau Cosigua | 12,149 |
| System for oxygen and coal injection into electric-arc furnace - Gerdau Cosigua | 3,015 |
| Modernization of the final part of rolling mill 2 - Gerdau Cosigua | 9,300 |
| Increase in production capacity of steel plant at Gerdau Barão de Cocais | 11,427 |
| Modernization of reduction mill controls - Gerdau Usiba | 3,504 |
| Modernization of rolling mill – Gerdau Açonorte | 7,391 |
| Installation of new Armafer units in Salvador and Fortaleza, as well as expansion of Armafer Recife (for steel cutting and folding) | 9,462 |
| Increase in production capacity of steel truss – Gerdau Cumbica | 8,674 |
| Expansion and redesign of the final part of rolling mill – Gerdau Pains | 1,634 |
| Installation of continuous caster of ingots, ladle furnace, pulverized coal injector, top of furnace power generating turbine and oxygen sub-lance at Açominas. | 7,036 |
| Abroad | |
| Construction of new steel plant at AmeriSteel – Knoxville (USA) | 40,552 |

12. DOMESTIC AND FOREIGN LOANS

Loan liabilities are as follows:

| | Annual charges (%) | Company | | Consolidated | |
|--|--------------------|------------------|------------------|------------------|------------------|
| | | 2000 | 1999 | 2000 | 1999 |
| CURRENT | | | | | |
| Working capital loan (R\$) | TJLP* + 11% | 1,006 | 487 | 1,006 | 489 |
| Working capital loan (US\$) | 1.30% to 13.36% | 74,515 | 89,194 | 676,816 | 598,259 |
| Fixed asset and other loans (US\$) | 5.38% to 13.36% | - | - | 102,857 | - |
| Working capital loan (Can\$) | 9.75% | - | - | 58,637 | 66,323 |
| Raw material loan (US\$) | 10.08% | - | - | 2,974 | 9,395 |
| Current portion of long-term loan | | 496,016 | 302,536 | 618,955 | 616,167 |
| | | <u>571,537</u> | <u>392,217</u> | <u>1,461,245</u> | <u>1,290,633</u> |
| LONG-TERM | | | | | |
| Fixed asset and other loans (R\$) | TJLP* + 11.50% | 428,027 | 299,877 | 484,957 | 374,118 |
| Fixed asset and other loans (Can\$) | 2.25% | - | - | - | 82,792 |
| Working capital loan (Can\$) | 9.09% | - | - | 38,440 | - |
| Fixed asset and other loans (US\$) | 6.71% a 10.08% | - | - | 153,637 | 180,037 |
| Fixed asset and other loans (DM) | 10.38% | 1,565 | 2,757 | 1,565 | 2,757 |
| Raw material and machine import loans (US\$) | 9.66% | 245,134 | 183,759 | 259,192 | 183,759 |
| Working capital loan (US\$) | 7.25% a 10.75% | 596,644 | 629,777 | 1,000,417 | 846,011 |
| Investments loan (US\$) | 9.96% | - | - | 179,341 | 400,879 |
| (-) Current portion | | (496,016) | (302,536) | (618,955) | (616,167) |
| | | <u>775,354</u> | <u>813,634</u> | <u>1,498,594</u> | <u>1,454,186</u> |
| Total loans | | <u>1,346,891</u> | <u>1,205,851</u> | <u>2,959,839</u> | <u>2,744,819</u> |

* TJLP – Brazilian long-term interest rate

The financed assets were pledged as collateral for FINAME (Government Agency for Machinery and Equipment Financing) loans. Other loans are secured by controlling shareholders' guarantees.

Eurobonus agreements include covenants limiting the financing amount to 4 times the Company's cash generating capacity (EBITDA). In the agreement with the BNDES covering the financing for the increase in ownership interest in Açominas, covenants limit the financing amount to 5 times the EBITDA.

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

| | Company | Consolidated |
|------------|----------------|------------------|
| In 2002 | 198,764 | 378,598 |
| In 2003 | 138,564 | 321,765 |
| In 2004 | 305,753 | 459,599 |
| In 2005 | 44,198 | 197,855 |
| In 2006 | 30,844 | 83,546 |
| After 2006 | 57,231 | 57,231 |
| | <u>775,354</u> | <u>1,498,594</u> |
| | <u>=====</u> | <u>=====</u> |

13. DEBENTURES

| Issue | General Shareholders' Meeting | Number | | Maturity | Annual rate | 2000 | 1999 |
|---------------------------|-------------------------------|--------|-----------|------------|-------------|---------|---------|
| | | Issued | Portfolio | | | | |
| 3 rd - A and B | 05.27.82 | 48,000 | 29,979 | 06.01.2011 | 16.95% | 42,364 | 47,892 |
| 4 th | 06.10.83 | 42,000 | 42,000 | 02.28.2012 | 16.95% | - | - |
| 5 th | 11.29.89 | 29,986 | - | 12.05.2005 | TR* + 8% | 23,003 | 27,032 |
| 7 th | 07.14.82 | 22,800 | 18,155 | 07.01.2012 | 16.95% | 13,631 | 7,211 |
| 8 th | 11.11.82 | 59,988 | 39,196 | 05.02.2013 | 16.95% | 39,861 | 37,208 |
| 9 th | 06.10.83 | 41,880 | 11,578 | 09.01.2014 | 16.95% | 88,921 | 7,479 |
| 10 th | 02.27.81 | 6,450 | 6,450 | 11.30.2015 | 16.95% | - | - |
| 11th - A and B | 06.29.90 | 50,000 | 43,320 | 06.01.2020 | 16.95% | 18,582 | 23,665 |
| | | | | | | ----- | ----- |
| (-) Current portion | | | | | | 226,362 | 150,487 |
| | | | | | | (4,719) | (4,481) |
| | | | | | | ----- | ----- |
| Long-term portion | | | | | | 221,643 | 146,006 |
| * TR – Reference Rate | | | | | | ===== | ===== |

14. FINANCIAL INSTRUMENTS

Loans and financing are commented in Note 12. Investments and intercompany loans are commented and presented in Note 3d 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.

15. TAXES PAYABLE

| | Company | | Consolidated | |
|------------------------------------|---------|--------|--------------|--------|
| | 2000 | 1999 | 2000 | 1999 |
| Withholding income tax | 6,483 | 9,130 | 9,387 | 24,157 |
| Social contribution tax on billing | 6,926 | 11,041 | 7,064 | 11,218 |
| Payroll charges | 15,136 | 13,804 | 15,994 | 14,318 |
| ICMS (state VAT) | 12,057 | 9,367 | 12,451 | 9,378 |
| IPI (federal VAT) | 2,601 | 1,866 | 2,568 | 1,877 |
| Other | 11,339 | 6,864 | 11,428 | 6,916 |
| | ----- | ----- | ----- | ----- |
| | 54,542 | 52,072 | 58,892 | 67,864 |
| | ===== | ===== | ===== | ===== |

16. REFIS (Tax Recovery Program)

On December 6, 2000, the Company opted for the Tax Recovery Program – REFIS, to pay PIS and COFINS (taxes on revenue) debts in installments. Such tax debt balances were recorded in the reserve for contingencies account, in long-term liabilities. After the option for REFIS, the balances were classified in the taxes payable account, in long-term liabilities. Renegotiated taxes, which are payable in 60 installments, are as follows:

| | Company | | |
|-------------------|-----------|----------|--------|
| | Principal | Interest | Total |
| PIS | 41,303 | 3,750 | 45,053 |
| COFINS | 9,613 | 1,083 | 10,696 |
| | ----- | ----- | ----- |
| Total | 50,916 | 4,833 | 55,749 |
| | ===== | ===== | ===== |
| Current portion | 12,099 | 1,099 | 13,198 |
| Long-term portion | 38,817 | 3,734 | 42,551 |
| | ----- | ----- | ----- |
| Total | 50,916 | 4,833 | 55,749 |
| | ===== | ===== | ===== |

17. RESERVE FOR CONTINGENCIES

The Company is a party to labor, civil and tax lawsuits, the latter related to certain taxes and contributions. Based on the legal counselors' opinion, Management believes that the reserve for contingencies is sufficient to cover probable losses reasonably estimated, arising from unfavorable court decisions, and that final decisions will not have significant effects on the Company's financial position as of December 31, 2000.

| Contingencies | Company | | Consolidated | |
|---------------|---------|---------|--------------|---------|
| | 2000 | 1999 | 2000 | 1999 |
| Tax | 96,986 | 135,093 | 103,120 | 144,887 |
| Labor | 15,313 | 3,857 | 19,046 | 3,857 |
| Civil | 208 | 64 | 2,543 | 64 |
| | ----- | ----- | ----- | ----- |
| Total | 112,507 | 139,014 | 124,709 | 148,808 |
| | ===== | ===== | ===== | ===== |

As the Company opted for the Tax Recovery Program – REFIS, the debt related to PIS and COFINS will be paid in installments; therefore, the related reserve for contingencies is no longer recognized. Accounting aspects in connection with REFIS option are detailed in Note 16.

18. SHAREHOLDERS' EQUITY

a) Capital – authorized capital is represented by 240,000,000,000 common shares (40,000,000,000 - 1999) and 480,000,000,000 preferred shares (80,000,000,000 - 1999) without par value, in accordance with a change approved by the Extraordinary Shareholders' Meeting held on April 28, 2000.

During the Extraordinary Shareholders' Meeting held on April 28, 2000, shareholders decided to increase capital by R\$3,252,000 from legal reserve, without issuing new shares; a share split, made through the issuance of two new shares in replacement of each one existing on that date, was also approved in that Meeting.

As of December 31, 2000, subscribed paid-up capital is represented by 39,382,020,386 common shares (19,691,010,193 - 1999) and 74,109,685,986 preferred shares (37,054,842,993 - 1999), totaling R\$1,320,133,000 (R\$1,316,881,000 - 1999). 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) 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\$125,134,000) was credited to shareholders in place of statutory dividends (30%), as follows:

| | 2000 | 1999 |
|--|----------|----------|
| Net income | 392,942 | 352,751 |
| Realization of unrealized profit reserve on equity in subsidiaries and associated companies | 8,212 | - |
| Recognition of legal reserve | (19,647) | (17,637) |
| Recognition of unrealized profit reserve on equity in subsidiaries and associated companies | - | (28,667) |
| | ----- | ----- |
| Adjusted net income | 381,507 | 306,447 |
| | ===== | ===== |
| Interest on capital | 125,134 | 97,938 |
| % interest paid or credited | 33% | 32% |

The realization of unrealized profit reserve on equity in subsidiaries and associated companies 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.

19. STATUTORY INTEREST

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

20. 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, 2000. 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\$2,900,000 (R\$4,053,000 - 1999), and in the consolidated financial statements the amount is R\$2,977,000 (R\$4,206,000 - 1999).

21. GROSS SALES REVENUE

| Per market: | Company | | Consolidated | |
|--------------------------|-----------|-----------|--------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| Domestic market | 3,311,738 | 2,558,922 | 3,508,005 | 2,707,408 |
| Foreign market | 272,102 | 201,078 | 499,343 | 307,047 |
| Companies located abroad | - | - | 2,219,131 | 1,034,064 |
| | ----- | ----- | ----- | ----- |
| | 3,583,840 | 2,760,000 | 6,226,479 | 4,048,519 |
| | ===== | ===== | ===== | ===== |

| Per market segment: | Company | | Consolidated | |
|---------------------|-----------|-----------|--------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| Civil construction | 1,502,772 | 1,150,920 | 2,793,867 | 1,735,780 |
| Industry | 1,582,748 | 909,972 | 2,910,347 | 1,595,635 |
| Other | 498,320 | 699,108 | 522,265 | 717,104 |
| | ----- | ----- | ----- | ----- |
| | 3,583,840 | 2,760,000 | 6,226,479 | 4,048,519 |
| | ===== | ===== | ===== | ===== |

| Per geographical area: | Consolidated | |
|------------------------|--------------|-----------|
| | 2000 | 1999 |
| Brazil | 4,007,348 | 3,014,455 |
| North America | 1,936,194 | 769,645 |
| South America | 282,937 | 264,419 |
| | ----- | ----- |
| | 6,226,479 | 4,048,519 |
| | ===== | ===== |

22. OTHER OPERATING INCOME

In the consolidated financial statements, this balance is basically composed of the amortization of negative goodwill arising from the acquisition of Aço Minas Gerais S.A. – Açominas, which amounted to R\$52,247,000 for the year.

23. 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 the countries where these financial statements may be used.

* * * * *

INVESTMENTS IN SUBSIDIARIES AND RELATED PARTIES
(In thousands of Brazilian reais)
(Translation of the original in Portuguese)

| | Gerdau Internacional Empreendimentos Ltda. (*) | Seiva S.A - Florestas e Indústrias | Itaguaí Com.Imp.e Exportação Ltda. | Gerdau Participações Ltda. (**) | Armafer Serviços de Construção Ltda. | Other | | |
|--|---|--|---|---------------------------------------|---|--------|--------------|-----------|
| Capital | 335,795 | 74,280 | 235,000 | 421,362 | 3,281 | - | | |
| Shareholders' equity | 922,611 | 111,662 | 264,107 | 533,744 | 3,954 | - | | |
| Net income | 77,940 | 8,399 | 23,883 | 123,214 | 44 | - | | |
| Equity in subsidiaries and Associated companies | 58,481 | 220 | 16,562 | 122,245 | 44 | (73) | | |
| % share in capital | 75.03% | 16.19% | 99.99% | 98.50% | 100.00% | - | | |
| Common shares held | - | 694,125 | - | - | - | - | | |
| Preferred shares held | - | 849,404 | - | - | - | - | | |
| Quotas held | 251,959,297 | - | 234,999,599 | 415,025,919 | 3,280,786 | - | Total | |
| Investment value | 692,269 | 18,081 | 264,106 | 525,718 | 3,954 | 14,579 | 1,518,707 | 1,160,323 |
| Deposit for capital increase | 34,410 | - | 13,330 | 801 | 17,500 | 2,331 | 68,372 | 99,939 |
| Other investments | | | | | | | 13,535 | 13,004 |
| Total | | | | | | | 1,600,614 | 1,273,266 |

(*) Company holding investments in companies located abroad

(**) Company holding interest in Açominas capital

COMPOSITION OF BALANCES WITH ASSOCIATED COMPANIES

| | Company | | Consolidated | |
|--------------------------------------|----------|----------|--------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| Assets | | | | |
| Armafer Serviços de Construção Ltda. | 2,270 | - | - | - |
| Central de Ferropronto S.A. | - | 2,209 | - | 2,209 |
| Fundação Gerdau | 7,956 | 5,748 | 7,963 | 5,739 |
| Haras Joter Ltda. and other | 18,618 | 25,993 | 10,745 | 19,315 |
| | ----- | ----- | ----- | ----- |
| Total assets | 28,844 | 33,950 | 18,708 | 27,263 |
| | ----- | ----- | ----- | ----- |
| Liabilities | | | | |
| Metalúrgica Gerdau S.A. | (1,614) | (79,281) | (1,614) | (79,281) |
| Armafer Serviços de Construção Ltda. | - | (2,123) | - | - |
| Seiva S.A. - Florestas e Indústrias | (7,794) | (3,506) | - | - |
| Itaguaí Com. Imp. e Exportação Ltda. | (1,014) | (1,002) | - | - |
| | ----- | ----- | ----- | ----- |
| Total liabilities | (10,422) | (85,912) | (1,614) | (79,281) |
| | ----- | ----- | ----- | ----- |
| Assets (liabilities) balances | 18,422 | (51,962) | 17,094 | (52,018) |
| | ===== | ===== | ===== | ===== |

| TRANSACTIONS WITH ASSOCIATED COMPANIES | Company - 2000 | | | | Company – 1999 | | | |
|--|----------------|-----------|------------------------|---------------------|----------------|-----------|------------------------|---------------------|
| | Sales | Purchases | Accounts Receivable | Accounts payable | Sales | Purchases | Accounts receivable | Accounts payable |
| Armafer Serviços de Construção Ltda. | 1,524 | - | 21 | - | 1,709 | 800 | 37 | - |
| Seiva S.A. – Florestas e Indústrias | - | - | 5 | - | - | - | - | - |
| Aço Minas Gerais S.A. – Açominas | 181 | 47,831 | 31 | 262 | - | 31,605 | - | 1.225 |
| Sociedad Industrial Puntana S.A. – SIPSA | 854 | - | 193 | - | 1,724 | - | - | - |
| Gerdau Laisa S.A. | 4,451 | - | 266 | - | 3,912 | - | 277 | - |
| Gerdau Aza S.A. | 1,775 | - | - | - | 158 | - | - | - |
| Sipar Aceros S.A. | 11,408 | - | 1,165 | - | 113 | - | 710 | - |

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.