

(A free translation of the original report in Portuguese  
on financial statements prepared in conformity with  
accounting practices adopted in Brazil)

**Gerdau S.A.**  
**Gerdau S.A. and Subsidiary**  
**Companies**  
**Financial Statements at**  
**December 31, 2002 and 2001**  
**and Report of Independent Accountants**

(A free translation of the original opinion in Portuguese expressed on financial statements prepared in conformity with accounting practices adopted in Brazil)

## **Report of Independent Accountants**

February 18, 2003

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

- 1 We have audited the accompanying balance sheets of Gerdau S.A. and the consolidated balance sheets of Gerdau S.A. and subsidiary Companies as of December 31, 2002 and the related statements of income, of changes in shareholders' equity and of changes in financial position of Gerdau S.A. and the consolidated statements of income and of changes in financial position for the year then ended. These financial statements are the responsibility of Company management. Our responsibility is to express an opinion on these financial statements.
  
- 2 We conducted our audits in accordance with Brazilian approved auditing standards which require that we perform the audits to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company and subsidiary companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements and (c) assessing the accounting principles used and significant estimates made by management of the Company and subsidiary companies, as well as evaluating the overall financial statement presentation.

February 18, 2003  
Gerdau S.A.

- 3 In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Gerdau S.A. and of Gerdau S.A. and subsidiary companies at December 31, 2002 and the results of its operations, the changes in shareholders' equity and the changes in financial position of Gerdau S.A. for the year then ended, as well as the consolidated results of its operations and the changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.
- 4 We conducted our audits in order to issue an opinion on the financial statements referred to in the first paragraph. The statement of cash flow, presented to provide supplementary information of Gerdau S.A. and of Gerdau S.A. and subsidiary companies, is not required as an integral part of the financial statements. Such statement of cash flow was subject to the auditing procedures described in the second paragraph and, in our opinion, is fairly presented in all its significant aspects in relation to the financial statements taken as a whole.
- 5 The audit of the financial statements for the year ended December 31, 2001, presented for comparison purposes, was conducted by other independent accountants, who issued an unqualified opinion dated January 28, 2002.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "S" RJ

Carlos Alberto de Sousa  
Partner  
Contador - CRC 1RJ 056561/O-7

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**GERDAU S.A.**

**BALANCE SHEET AT DECEMBER 31**  
**(In thousands of reais)**

**ASSETS**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	365.680	177.400	1.430.656	1.012.822
Trade accounts receivable	476.157	402.919	1.376.029	829.010
Inventories	619.693	499.900	2.219.981	1.331.133
Tax credits	26.451	28.626	60.573	63.266
Deferred income tax and social contribution	20.849	1.953	116.979	25.632
Other accounts receivable	65.037	60.080	166.871	98.419
Total assets	<u>1.573.867</u>	<u>1.170.878</u>	<u>5.371.089</u>	<u>3.360.282</u>
<b>LONG-TERM RECEIVABLES</b>				
Related companies	8.825	33.595	7.585	28.093
Eletrobrás loans	8.908	6.665	10.938	9.345
Deferred income tax and social contribution	28.711	24.126	278.652	102.141
Compulsory deposits and other	95.304	66.988	255.923	134.594
Total long-term receivables	<u>141.748</u>	<u>131.374</u>	<u>553.098</u>	<u>274.173</u>
<b>PERMANENT ASSETS</b>				
Investments	4.410.913	1.759.939	916.234	310.595
Fixed assets	1.672.543	1.613.501	7.597.318	5.807.868
Deferred charges	7.668	10.147	24.269	13.502
Total permanent assets	<u>6.091.124</u>	<u>3.383.587</u>	<u>8.537.821</u>	<u>6.131.965</u>
Total assets	<u><u>7.806.739</u></u>	<u><u>4.685.839</u></u>	<u><u>14.462.008</u></u>	<u><u>9.766.420</u></u>

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

(A free translation of the original in Portuguese  
prepared in conformity with accounting practices adopted in Brazil)

**GERDAU S.A.**

**BALANCE SHEET AT DECEMBER 31**

(In thousands of reais)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>CURRENT LIABILITIES</b>				
Suppliers	148.328	111.891	925.541	580.790
Short-term debt	1.237.464	323.304	3.707.916	2.101.970
Debentures	-	4.683	-	4.683
Taxes and contributions payable	110.111	82.491	167.189	88.459
Deferred income tax and social contribution	-	6.634	28.118	6.812
Salaries payable	41.231	31.929	194.510	84.454
Proposed dividends / interest on own capital	163.135	102.271	167.656	111.943
Other payables	28.252	28.148	197.967	175.184
Total current liabilities	<u>1.728.521</u>	<u>691.351</u>	<u>5.388.897</u>	<u>3.154.295</u>
<b>LONG-TERM LIABILITIES</b>				
Long-term debt	1.032.164	852.258	2.750.492	1.841.526
Debentures	539.922	231.317	709.367	218.591
Related companies	1.048.425	-	-	-
Reserve for contingencies	95.530	104.664	173.443	129.680
Deferred income tax and social contribution	35.835	28.927	487.018	336.611
Benefits to employees	9.689	13.331	357.671	46.378
Other payables	23.427	78.232	174.477	123.488
Total long-term liabilities	<u>2.784.992</u>	<u>1.308.729</u>	<u>4.652.468</u>	<u>2.696.274</u>
<b>MINORITY INTEREST</b>	-	-	1.127.417	1.230.092
<b>SHAREHOLDERS' EQUITY</b>				
Capital	1.335.120	1.320.133	1.335.120	1.320.133
Capital reserves	310.368	255.213	310.368	255.213
Revenue reserves	1.647.738	1.110.413	1.647.738	1.110.413
Total shareholders' equity	<u>3.293.226</u>	<u>2.685.759</u>	<u>3.293.226</u>	<u>2.685.759</u>
<b>SHAREHOLDERS' EQUITY INCLUDING</b>				
<b>MINORITY INTEREST</b>	-	-	4.420.643	3.915.851
Total liabilities and shareholders' equity	<u><u>7.806.739</u></u>	<u><u>4.685.839</u></u>	<u><u>14.462.008</u></u>	<u><u>9.766.420</u></u>

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

(A free translation of the original in Portuguese  
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GERDAU S.A.

STATEMENT OF INCOME  
YEARS ENDED DECEMBER 31  
(In thousands of reais)

	Company		Consolidated	
	2002	2001	2002	2001
GROSS SALES	5.093.107	3.947.873	11.143.960	7.083.601
Taxes on sales	(946.759)	(755.923)	(1.133.490)	(865.009)
Freights and discounts	(146.227)	(119.306)	(848.758)	(330.189)
<b>NET SALES</b>	<b>4.000.121</b>	<b>3.072.644</b>	<b>9.161.712</b>	<b>5.888.403</b>
Cost of sales	(2.379.077)	(1.908.133)	(6.538.993)	(4.235.146)
<b>GROSS PROFIT</b>	<b>1.621.044</b>	<b>1.164.511</b>	<b>2.622.719</b>	<b>1.653.257</b>
SELLING EXPENSES	(249.901)	(211.277)	(337.589)	(264.690)
FINANCIAL EXPENSES	(680.724)	(371.222)	(1.360.357)	(633.072)
FINANCIAL INCOME	118.493	67.732	276.712	133.178
GENERAL AND ADMINISTRATIVE EXPENSES				
Managers' fees	(12.633)	(7.906)	(15.193)	(12.303)
General expenses	(275.959)	(264.158)	(649.592)	(457.341)
EQUITY PICKUP ON SUBSIDIARY COMPANIES	393.147	177.103	408.730	160.295
OTHER OPERATING INCOME (EXPENSES), NET	8.695	10.432	16.048	(5.926)
<b>OPERATING PROFIT</b>	<b>922.162</b>	<b>565.215</b>	<b>961.478</b>	<b>573.398</b>
NON-OPERATING INCOME (EXPENSES), NET	(41.304)	(23.128)	(49.903)	(2.925)
<b>NET INCOME BEFORE TAXES AND PARTICIPATIONS</b>	<b>880.858</b>	<b>542.087</b>	<b>911.575</b>	<b>570.473</b>
PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION				
Current	(88.211)	(56.819)	(89.561)	(51.000)
Deferred	18.674	(13.356)	9.670	36.816
PARTICIPATIONS	(12.633)	(7.906)	(13.746)	(9.994)
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>798.688</b>	<b>464.006</b>	<b>817.938</b>	<b>546.295</b>
MINORITY INTEREST			(19.250)	(82.289)
<b>NET INCOME FOR THE YEAR</b>			<b>798.688</b>	<b>464.006</b>
Net income per thousand shares - R\$	7,00	4,09		
Net equity per thousand shares - R\$	28,86	23,66		

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

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GERDAU S.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31

(In thousands of reais)

	Capital reserves				Revenue reserves				Retained earnings	Total shareholders' equity	
	Capital	Fiscal investments	Special Law 8200/91	Other	Total	Legal	Unrealized profits	Investments and working capital			Total
At December 31, 2000	1.320.133	193.476	21.487	6.187	221.150	64.207	20.455	739.262	823.924	-	2.365.207
Net income for the year	-	-	-	-	-	-	-	-	-	464.006	464.006
Fiscal investments	-	34.063	-	-	34.063	-	-	-	-	-	34.063
Prior-year adjustments - benefits to employees	-	-	-	-	-	-	-	-	-	(13.331)	(13.331)
Reserve realization and reversal	-	-	-	-	-	-	(20.455)	-	(20.455)	20.455	-
Proposed distribution to General Meeting:											
Legal reserve	-	-	-	-	-	23.201	-	-	23.201	(23.201)	-
Reserve for investments and working capital	-	-	-	-	-	-	-	283.743	283.743	(283.743)	-
Interest on own capital	-	-	-	-	-	-	-	-	-	(164.186)	(164.186)
At December 31, 2001	<u>1.320.133</u>	<u>227.539</u>	<u>21.487</u>	<u>6.187</u>	<u>255.213</u>	<u>87.408</u>	<u>-</u>	<u>1.023.005</u>	<u>1.110.413</u>	<u>-</u>	<u>2.685.759</u>
Net income for the year	-	-	-	-	-	-	-	-	-	798.688	798.688
Capital increase	14.987	-	-	-	-	-	-	-	-	-	14.987
Fiscal investments	-	49.067	-	6.088	55.155	-	-	-	-	-	55.155
Prior-year adjustments - tax on benefits to employees	-	-	-	-	-	-	-	-	-	4.533	4.533
Proposed distribution to General Meeting:											
Legal reserve	-	-	-	-	-	40.161	-	-	40.161	(40.161)	-
Reserve for investments and working capital	-	-	-	-	-	-	-	497.164	497.164	(497.164)	-
Interest on own capital	-	-	-	-	-	-	-	-	-	(265.896)	(265.896)
At December 31, 2002	<u>1.335.120</u>	<u>276.606</u>	<u>21.487</u>	<u>12.275</u>	<u>310.368</u>	<u>127.569</u>	<u>-</u>	<u>1.520.169</u>	<u>1.647.738</u>	<u>-</u>	<u>3.293.226</u>

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GERDAU S.A.

STATEMENT OF CHANGES IN FINANCIAL POSITION  
YEARS ENDED DECEMBER 31  
(In thousands of reais)

	Company		Consolidated	
	2002	2001	2002	2001
<b>FINANCIAL RESOURCES WERE PROVIDED BY:</b>				
Operations:				
Net income for the year	798.688	464.006	817.938	546.295
Expenses (income) not affecting working capital:				
Depreciation and amortization	184.123	172.061	511.771	391.037
Prior-year adjustments - benefits to employees	4.533	(13.331)	4.533	(13.331)
Cost of permanent asset disposal	50.438	89.057	78.035	95.613
Equity pickup on subsidiary companies	(393.147)	(177.103)	(408.730)	(160.295)
Monetary variations on long-term debts	316.763	104.314	434.551	97.237
Monetary variations on long-term credits	(43.969)	(6.029)	(42.620)	(6.120)
Arising from operations	917.429	632.975	1.395.478	950.436
Third parties:				
Capital increase	14.987	-	14.987	-
Contributions to capital reserves	55.155	34.063	56.378	34.201
Increase (decrease) in long-term liabilities	1.159.500	(32.464)	(408.716)	(83.704)
Net working capital of consolidated companies	-	-	295.970	(31.260)
Foreign exchange effect on working capital of foreign companies	-	-	62.638	70.961
Loss effect of interest on working capital of associated companies	-	-	(22.658)	(104.094)
Dividends not included in income for the year	30.632	30.657	4	-
Total funds provided	2.177.703	665.231	1.394.081	836.540
<b>FINANCIAL RESOURCES WERE USED FOR:</b>				
Investments	2.319.910	76.192	611.827	345.132
Fixed assets	258.618	177.376	648.427	513.464
Deferred charges	1.055	2.074	6.135	2.858
Increase (decrease) in long-term receivables	(33.595)	8.379	82.455	21.327
Dividends / interest on own capital	265.896	164.186	269.032	174.160
Total funds used	2.811.884	428.207	1.617.876	1.056.941
<b>CHANGES IN NET WORKING CAPITAL</b>	<b>(634.181)</b>	<b>237.024</b>	<b>(223.795)</b>	<b>(220.401)</b>
Working capital:				
At the beginning of the year	479.527	242.503	205.987	426.388
At the end of the year	(154.654)	479.527	(17.808)	205.987
<b>CHANGES IN NET WORKING CAPITAL</b>	<b>(634.181)</b>	<b>237.024</b>	<b>(223.795)</b>	<b>(220.401)</b>

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

**SUPPLEMENTARY INFORMATION**

GERDAU S.A.

**STATEMENT OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31  
(Amounts expressed in thousands of reais)**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Net income for the year	798.688	464.006	817.938	546.295
Equity pickup on subsidiary companies	(393.147)	(177.103)	(408.730)	(160.295)
Allowance for doubtful accounts	4.911	13.758	5.432	11.909
Gain in property, plant and equipment disposal	5.625	19.909	8.190	24.120
Gain in investments disposal	4.087	18.056	7.420	5.129
Debt indexation	428.566	172.571	748.573	140.745
Depreciation and amortization	184.123	172.061	511.771	391.037
Fiscal investments	55.155	34.063	56.378	34.201
Income tax and social contribution	4.769	24.822	7.755	2.976
Interest on debt	227.040	168.303	454.651	248.297
Contingencies/judicial deposits	(4.067)	(9.053)	6.334	(11.306)
Trade accounts receivable variation	(84.816)	(15.623)	(147.543)	64.460
Inventory variation	(119.793)	(62.927)	(222.708)	(51.974)
Suppliers variation	33.309	30.524	(46.005)	62.729
Other operating activity accounts	4.125	(41.651)	(172.051)	(131.208)
<b>Net cash from operating activities</b>	<b>1.148.575</b>	<b>811.716</b>	<b>1.627.405</b>	<b>1.177.115</b>
Acquisition/disposal of property, plant and equipment	(244.867)	(172.762)	(565.828)	(444.266)
Increase in deferred assets	(1.444)	(2.074)	(6.135)	(2.858)
Acquisition/disposal of investments	(2.307.556)	(1.403)	(906.213)	(345.132)
Receipt of dividends/interest on own capital	30.628	1.124	-	-
<b>Net cash used in investments</b>	<b>(2.523.239)</b>	<b>(175.115)</b>	<b>(1.478.176)</b>	<b>(792.256)</b>
Suppliers of property, plant and equipment	2.747	(10.653)	(13.449)	(10.843)
Working capital loans	598.163	(73.705)	618.679	(21.972)
Debentures	250.959	(27.367)	238.414	(40.093)
Permanent assets loans	654.749	80.049	1.476.379	909.953
Amortization of permanent asset loans	(472.577)	(342.969)	(1.872.003)	(748.756)
Payment of interests	(124.597)	(129.972)	(343.614)	(208.486)
Loan with related companies	854.990	(15.173)	3.771	(10.999)
Payment of dividends/interest on own capital and participations	(201.490)	(127.599)	(210.675)	(137.848)
<b>Net cash used in financing activities</b>	<b>1.562.944</b>	<b>(647.389)</b>	<b>(102.498)</b>	<b>(269.044)</b>
<b>Changes in cash balance</b>	<b>188.280</b>	<b>(10.788)</b>	<b>46.731</b>	<b>115.815</b>
<b>Cash balance</b>				
At the beginning of the year	177.400	188.188	1.012.822	704.169
Restatement of opening cash	-	-	318.717	73.490
Opening balance of consolidated companies for the year	-	-	52.386	119.348
At the end of the year	365.680	177.400	1.430.656	1.012.822

(A free translation of the original notes in Portuguese to financial statements prepared in conformity with accounting practices adopted in Brazil)

**GERDAU S.A.**

**NOTES TO THE FINANCIAL STATEMENTS  
AT DECEMBER 31, 2002 AND 2001**

**(All amounts in thousands of reais unless otherwise indicated)**

**NOTE 1 – OPERATIONS**

Gerdau S.A. is a company of the Gerdau Group dedicated, mainly, to the production of common long and specialty steel and to the distribution of general steel products (flat and long), through plants located in the main Brazilian markets, as well as Uruguay, Chile, Canada, Argentina and United States of America.

Gerdau Group has an installed capacity of 14 million of tons of crude steel per year, basically producing steel in electric arc furnaces, from scrap and pig iron acquired, in most part, in the region near each plant (concept of mini-mill). Gerdau also operates plants which are capable to produce steel from iron ore (through blast furnace and direct reduction) and has an unit used exclusively to produce special steel products. It is the largest scrap recycling company in Latin America and it is among the largest companies in the world.

The industrial is the most important business segment, in which the manufactures of goods, such as vehicles, housing and commercial equipment, basically use profiles of the many available specifications, followed by the civil construction sector, which demands a high volume of merchant bars and rebars. It is also very high the number of consumers of nails, clamps and wires, commonly used in the agricultural sector.

**NOTE 2 – PRESENTATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared in conformity with accounting practices adopted in Brazil, together with the accounting principles determined by Brazilian corporate legislation and the rules established by the Brazilian Securities Commission (CVM), which, as from the effectiveness of Law 9249/95, do not provide the recognition of the inflationary effects that, up to December 31, 1995, were recognized based on official rates.

It is being presented, as supplementary information, in order to provide additional information, the statement of cash flow (company and consolidated) prepared by the indirect method.

**NOTE 3 – SIGNIFICANT ACCOUNTING PRACTICES**

- a) **Available funds and financial investments** – are recorded at cost plus income accrued up to the balance sheet date, applying the interest rates agreed with the financial institutions.
- b) **Allowance for doubtful accounts** – is calculated based on the risk rating of receivables, which takes into consideration historical losses, individual situation of customers, and the evaluation of legal advisors and is considered sufficient to cover possible losses on receivables.
- c) **Inventories** – are stated at the lower of market value and average production or purchase cost.
- d) **Investments in subsidiaries** – are accounted for using the equity method, and the result of the equity pick-up is recorded in an operating result account. The investments in subsidiaries are described in the Attachment to Note 3d.
- e) **Fixed assets** – are recorded at cost, net of depreciation. Depreciation is calculated on the straight-line, at rates described in Note 11, which take into consideration the estimated useful lives of assets. Interest on loans used to finance construction in progress is added to the cost of work in progress.

- f) **Deferred charges** – amortizations are calculated on the straight-line method at rates determined based on the production of projects implemented in relation to installed capacities.
- g) **Loans** – are stated by the notional value, plus agreed charges, including interest, monetary or foreign exchange restatement incurred. The swap operations, which are subject to loan agreements, are classified together with the operations from which they were generated.
- h) **Income tax and social contribution** – current and deferred income tax and social contribution are calculated according to the enacted law.
- i) **Other current and long-term liabilities** – are recorded at known or estimated amounts plus accrued charges and monetary variations, when applicable.
- j) **Translation of foreign currency balance** – the criteria used for translation of assets and liabilities balances from operations in foreign currency consists of the conversion to local currency (R\$) at the foreign exchange rate in effect as of the closing date (2002 - US\$ 1,00 = R\$ 3,5333 and 2001 – US\$ 1,00 = R\$ 2,3204).

#### NOTE 4 – CONSOLIDATED FINANCIAL STATEMENTS

- a) The consolidated financial statements at December 31, 2002 include the accounts of Gerdau S.A. and the directly and indirectly controlled subsidiaries listed below:

Florestal Itacambira S.A. (100%), Florestal Rio Largo Ltda. (100%), Itaguaí Com. Imp. e Exp. Ltda. (100%), Seiva S.A. - Florestas e Indústrias (96%), Armafer Serviços de Construção Ltda. (100%), Prontofer Serviços de Construção Ltda. (100%), Laminadora do Sul S.A. (100%), Gerdau Participações Ltda. (100%), CEA Participações S.A. (99%), Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau (100%), Aço Minas Gerais S.A. - Açominas (79%), Açominas Overseas Ltd. (79%), Aço Minas Com. Imp. Exp. S.A. (79%), Dona Francisca Energética S.A. (52%), Gerdau Laisa S.A. (99%), Gerdau Aza S.A. (100%), Indústria Del Aciero S.A.-Indac (100%), Gerdau Chile Inversiones Ltda. (100%), Aceros Cox S.A. (100%), Sociedad Industrial Puntana S.A. – SIPSA (38%), Sipar Aceros S.A. (38%), Siderco S.A. (38%), Axol S.A. (100%), Gerdau Steel Inc. (100%), Gerdau Ameristeel MRM Special Sections Inc. (67%), Gerdau Ameristeel Cambridge Inc. (67%), Gerdau MRM Holdings Inc. (67%), Gerdau Ameristeel Corporation (67%), Gerdau USA Inc. (67%), AmeriSteel Bright Bar Inc. (67%), AmeriSteel Corp. (67%), Gerdau Ameristeel Perth Amboy Inc. (67%), Gerdau Ameristeel Sayreville Inc. (67%), GTL Equity Investments Corp. (100%), GTL Financial Corp. (100%), Gerdau GTL Spain S.L. (100%), Aramac S.A. (100%), GTL Trade Finance Corp. (100%) and GTL Brasil Ltda. (100%).

- b) From the accounting practices used in the preparation of the consolidated financial statements, the following should be noted:
  - I) Gerdau S.A. and its subsidiaries adopt consistent accounting practices to record operations and value their assets and liabilities. The financial statements of foreign companies are translated using the exchange rate in effect on the balance sheet date and are in conformity with the accounting practices adopted in Brazil.
  - II) Balances arising from transactions between consolidated companies have been eliminated.
  - III) Minority interest in subsidiaries is shown separately.
- c) During the year, the following operations occurred:
  - D) At March 28, 2002, in order to align its share interest structure to the Argentinean economic scenario, Gerdau S.A. concluded the transfer of its interest of 71.77% in Sociedad Industrial Puntana S.A. – SIPSA to the subsidiary company Sipar Aceros S.A. Due to this operation, Sipar holds 100% of Sipsa and the businesses of Gerdau - Argentina were maintained with an interest of 38.18% in Sipar;

- II) At August 26, 2002, the indirectly controlled company Gerdau Aza S.A. acquired, together with Companhia Siderúrgica Huachipato S.A., Comercial Acindar Chile Ltda., by the amount of US\$ 4,800, equivalent, on that date, to R\$ 14,778. Subsequently, its name was changed to Armacero Comercial y Industrial Ltda.;
- III) At September 6, 2002, 24.79% of the shares of Aço Minas Gerais S.A. – Açominas were purchased, in the amount of US\$ 211,647, equivalent, on that date, to R\$ 672,678;
- IV) At October 23, 2002, it was concluded the business combination between Gerdau – North America and Co-Steel Inc. operations. The operation comprised the capitalization of Co-Steel with shares of Gerdau companies in North America (Gerdau Courtice Steel Inc., Gerdau MRM Steel Inc. and AmeriSteel Corporation). After the capital increase, Co-Steel Inc. changed its name to Gerdau Ameristeel Corporation, and Gerdau S.A., through its indirect subsidiary company Gerdau Steel Inc., holds 67.34% of the shares of the new company;
- V) At December 24, 2002, it was acquired the portion equivalent to 30% of the capital of Dona Francisca Energética S.A., in the amount of R\$ 20,000. Due to this acquisition, Gerdau S.A. holds 51.82% of this company's capital;
- VI) At March 23, 2002, an accident with the regenerators of the blast furnace plant, at the Presidente Arthur Bernardes mill, of the subsidiary Açominas, resulted in the suspension of several activities and in material damages to the plant's equipment. The equipment, as well as the losses arising from such situation, had insurance coverage. The description of the accident, as well as the "final claim of losses", are filed with IRB – Brasil Resseguros S.A., which process is being concluded according to Açominas expectations, and an advance of R\$ 62,000 was received. The estimate of indemnity for loss of profits coverage was recorded, on a conservative basis, up to the limit of the amount of fixed costs incurred during the period of partial suspension of the plant's activities, in the amount of R\$ 49,923, in "Other operating income". The exceeding amount of costs will be recorded when the process is concluded. In September 2002, the plant restarted its operations at full capacity.
- d) Due to the business combination with Co-Steel Inc. in October 2002, we present below the *pro-forma* consolidated statement of income, showing the results of operations if this transaction had occurred on January 1, 2002, summarized as follows.

<b>GERDAU S.A.</b>	
<b><i>PRO-FORMA STATEMENT OF INCOME</i></b>	
	<b>2002</b>
Net sales revenue	10,920,557
Cost of products sold	(8,233,444)
Gross profit	2,687,113
Operating expenses and income	(1,691,876)
Operating income	995,237
Non-operating expenses	(70,326)
Income tax and social contribution	(88,707)
Management's interest	(13,746)
<b>NET INCOME</b>	<b>822,458</b>

- e) The consolidation comprises the financial statements of the subsidiary companies Sipar Aceros S.A. and Dona Francisca Energética S.A., proportionally to the indirect and direct interest, respectively, of the parent company in the capital of these subsidiaries. Due to the business combination between the operations of Gerdau in North America and Co-Steel Inc. operations, which process was concluded on October 22, 2002, the Company recognized the effects of this operation in their financial statements as from that date.

The amounts of the main groups of assets, liabilities and income statement of these companies, are demonstrated as follows:

	<b>Sipar</b>			
	<b>Dona Francisca</b>	<b>Co-Steel</b>	<b>Consolidated</b>	<b>Company</b>
	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>
<b>Assets</b>				
Current assets	77,353	609,413	81,223	75,565
Long-term receivables	187,670	94,873	-	2,730
Permanent assets	201,591	1,282,277	33,699	18,257
<b>Total assets</b>	<b>466,614</b>	<b>1,986,563</b>	<b>114,922</b>	<b>96,552</b>
<b>Liabilities</b>				
Current liabilities	54,788	354,941	65,935	46,072
Long-term liabilities	427,052	1,179,413	2,540	4,066
Shareholders' equity	(15,226)	452,209	46,447	46,414
<b>Total liabilities</b>	<b>466,614</b>	<b>1,986,563</b>	<b>114,922</b>	<b>96,552</b>
<b>Statement of operations</b>				
	<b>December 2002</b>	<b>10/23 to 12/31/2002</b>	<b>2002</b>	<b>2001</b>
Net sales revenue	(464)	305,231	178,834	82,615
Cost of sales	(1,521)	(317,213)	(149,045)	(68,424)
Sales expenses	-	(1,813)	(13,727)	(5,445)
General and administrative expenses	(127)	(3,745)	(10,536)	(4,673)
Financial income	1,264	(19,797)	(100,052)	(8,579)
Equity pickup	-	15,797	2,473	18
Other operating income (expenses)	-	-	(7,899)	(28)
Non-operating income	24	-	401	240
Provision for income tax and social contribution	228	16,512	(484)	(1,050)
<b>Net loss for the year</b>	<b>(596)</b>	<b>(5,028)</b>	<b>(100,035)</b>	<b>(5,326)</b>

The Company, through its directly or indirectly controlled subsidiaries, has goodwill and negative goodwill which are being amortized according to the realization of the assets that generated them or based on projections of future results, as follows:

	<u>Amortization period</u>	<u>Company</u>	<u>Consolidated</u>
<b>Investment goodwill</b>			
Balance at December 31, 2001		-	276,134
(+) Foreign exchange restatement		-	144,152
(+) Goodwill for the year		24,390	136,312
(-) Amortization for the year	10 years	-	(54,766)
Balance at December 31, 2002 based on:		24,390	501,832
- undervaluation of assets		-	365,520
- expectation of future profitability		24,390	136,312

The breakdown of goodwill by each subsidiary is explained in Note 3d.

**Property, plant and equipment goodwill**

Balance at December 31, 2001		-	271,412
(+) Foreign exchange restatement		-	98,801
(-) Amortization for the year	10 years	-	(49,559)
Balance at December 31, 2002 (by undervaluation of assets)		-	320,654

The goodwill mainly resulted from assets of the subsidiary AmeriSteel Corporation.

**Property, plant and equipment negative goodwill**

Balance at December 31, 2001		-	(312,231)
(-) Amortization for the year	30 years	-	14,850
Balance at December 31, 2002 (by over valuation of assets)		-	(297,381)

The negative goodwill resulted from assets of the subsidiary Aço Minas Gerais S.A.- Açominas

f) The amount of equity in the earnings in the consolidated statement of income refers, basically, to the effect of the foreign exchange devaluation on foreign investments, which was not eliminated.

**NOTE 5 – CASH AND CASH EQUIVALENTS**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	38,593	173	71,368	7,122
Investment fund	327,087	177,227	443,714	295,216
Fixed revenue securities	-	-	884,300	558,906
Variable revenue securities	-	-	31,274	151,578
	<u>365,680</u>	<u>177,400</u>	<u>1,430,656</u>	<u>1,012,822</u>

From the existing balance, R\$ 722,425 – consolidated (R\$ 556,275 – consolidated in 2001) refer to short-term investments in U.S. dollars.

**NOTE 6 – TRADE ACCOUNTS RECEIVABLE**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Trade accounts receivable – Brazil	469,899	394,264	576,938	440,233
Trade accounts receivable from Brazilian exports	48,814	46,300	213,175	150,505
Trade accounts receivable from foreign companies	-	-	639,408	293,788
Allowance for doubtful accounts	(42,556)	(37,645)	(53,492)	(55,516)
	<u>476,157</u>	<u>402,919</u>	<u>1,376,029</u>	<u>829,010</u>

Trade accounts receivable from foreign markets are restated based on the foreign exchange rates in effect on the balance sheet date. These balances were translated to Brazilian reais based on the foreign currency on the balance sheet date.

**NOTE 7 - INVENTORIES**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Finished products	214,574	185,288	1,149,751	555,266
Work in progress	128,453	99,799	309,969	183,159
Raw materials	158,807	88,897	307,534	303,458
Packaging and maintenance supplies	94,419	108,196	375,581	263,760
Advances to suppliers	23,440	17,720	77,146	25,490
	<u>619,693</u>	<u>499,900</u>	<u>2,219,981</u>	<u>1,331,133</u>

The inventories (company and consolidated) are insured against fire and overflow. Their coverage are based on the risks involved.

**NOTE 8 – TAX CREDITS**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Tax on sales and services (ICMS)	21,410	15,262	41,020	23,111
Industrialized Products Tax (IPI)	655	2,156	1,395	2,798
PIS to offset	4,292	-	4,293	-
Income tax	78	11,161	8,575	24,310
Tax on added value (IVA)	-	-	795	12,946
Other	16	47	4,495	101
	<u>26,451</u>	<u>28,626</u>	<u>60,573</u>	<u>63,266</u>

**NOTE 9 – INCOME TAX AND SOCIAL CONTRIBUTION**

**Balances:**

	<b>Company</b>							
	<b>Assets</b>				<b>Liabilities</b>			
	<b>2002</b>		<b>2001</b>		<b>2002</b>		<b>2001</b>	
	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>
Income tax	13,988	22,988	1,456	19,194	-	30,880	4,878	27,325
Social contribution	6,861	5,723	497	4,932	-	4,955	1,756	1,602
	<u>20,849</u>	<u>28,711</u>	<u>1,953</u>	<u>24,126</u>	<u>-</u>	<u>35,835</u>	<u>6,634</u>	<u>28,927</u>

**Basis for recognition of deferred taxes:**

	<b>Company</b>			
	<b>2002</b>		<b>2001</b>	
<b>Assets</b>	<b>Income tax</b>	<b>Social contribution</b>	<b>Income tax</b>	<b>Social contribution</b>
Tax loss carryforwards/social contribution negative basis				
	46,968	67,560	-	-
Provision for contingencies	41,796	41,796	54,801	54,801
Valuation allowance – Eletrobrás loans	39,675	11,008	22,284	-
Provision for post-retirement benefits	9,689	9,689	-	-
Provision for expenses (exports, commissions, interest)	9,776	9,776	5,516	5,516
	<u>147,904</u>	<u>139,829</u>	<u>82,601</u>	<u>60,317</u>
<b>Liabilities</b>				
Accelerated depreciation	104,412	37,558	88,152	-
Capital gain	15,680	14,074	40,122	37,315
Amortized negative goodwill	3,428	3,428	536	-
	<u>123,520</u>	<u>55,060</u>	<u>128,810</u>	<u>37,315</u>

**Reconciliation:**

	<b>Company</b>					
	<b>2002</b>			<b>2001</b>		
	<b>Income tax</b>	<b>Social contribution</b>	<b>Total</b>	<b>Income tax</b>	<b>Social contribution</b>	<b>Total</b>
Income before taxes	868,225	868,225	868,225	534,181	534,181	534,181
Nominal tax rate	25%	9%	34%	25%	9%	34%
Income tax and social contribution at nominal tax rates	(217,056)	(78,140)	(295,196)	(133,545)	(48,076)	(181,621)
Tax effect on:						
- equity pick-up	98,287	35,383	133,670	44,276	15,939	60,215
- interest on capital	66,474	23,931	90,405	40,766	14,676	55,442
- permanent differences (net)	649	935	1,584	(3,280)	(931)	(4,211)
Income tax and social contribution on income	<u>(51,646)</u>	<u>(17,891)</u>	<u>(69,537)</u>	<u>(51,783)</u>	<u>(18,392)</u>	<u>(70,175)</u>
Current	(65,961)	(22,250)	(88,211)	(43,022)	(13,797)	(56,819)
Deferred	14,315	4,359	18,674	(8,761)	(4,595)	(13,356)

**Balances:**

	<b>Consolidated</b>							
	<b>Assets</b>				<b>Liabilities</b>			
	<b>2002</b>		<b>2001</b>		<b>2002</b>		<b>2001</b>	
	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>
Deferred income tax	103,016	236,960	22,445	77,588	28,118	463,158	5,056	320,325
Social contribution	13,963	41,692	3,187	24,553	-	23,860	1,756	16,286
	<u>116,979</u>	<u>278,652</u>	<u>25,632</u>	<u>102,141</u>	<u>28,118</u>	<u>487,018</u>	<u>6,812</u>	<u>336,611</u>

**Basis for recognition of deferred taxes:**

	<b>Consolidated</b>			
	<b>2002</b>		<b>2001</b>	
<b>Assets</b>	<b>Income tax</b>	<b>Social contribution</b>	<b>Income tax</b>	<b>Social contribution</b>
Tax loss carryforwards/social contribution negative basis				
	774,708	427,222	243,080	246,658
Provision for contingencies	165,511	161,767	103,200	55,946
Valuation allowance – Eletrobrás credits	40,993	11,008	23,648	-
Provision for post-retirement benefit	118,868	9,689	-	-
Provision for expenses (exports, commissions, interest)	<u>89,487</u>	<u>8,771</u>	<u>5,701</u>	<u>5,701</u>
	1,189,567	618,457	375,629	308,305
<b>Liabilities</b>				
Accelerated depreciation	1,333,547	96,133	799,201	50,912
Amortized negative goodwill	197,353	155,089	-	-
Capital gain	<u>15,680</u>	<u>13,878</u>	<u>188,916</u>	<u>149,547</u>
	1,546,580	265,100	988,117	200,459

**Reconciliation:**

	<b>Consolidated</b>					
	<b>2002</b>			<b>2001</b>		
	<b>Income tax</b>	<b>Social contribution</b>	<b>Total</b>	<b>Income tax</b>	<b>Social contribution</b>	<b>Total</b>
Income before taxes	897,829	897,829	897,829	560,479	560,479	560,479
Nominal tax rate	25%	9%	34%	25%	9%	34%
Income tax and social contribution at nominal tax rates	(224,457)	(80,804)	(305,261)	(140,120)	(50,443)	(190,563)
Tax effect on:						
- tax rate difference of foreign companies	3,405	12,496	15,901	4,081	185	4,266
- equity pick-up	102,183	36,786	138,969	40,074	14,427	54,501
- interest on capital	66,537	23,953	90,490	41,117	14,802	55,919
- recovery of deferred tax assets – Açominas	27,771	9,997	37,768	62,231	22,403	84,634
- permanent differences (net)	<u>(34,182)</u>	<u>(23,576)</u>	<u>(57,758)</u>	<u>(10,404)</u>	<u>(12,537)</u>	<u>(22,941)</u>
Income tax and social contribution on income	<u>(58,743)</u>	<u>(21,148)</u>	<u>(79,891)</u>	<u>(3,021)</u>	<u>(11,163)</u>	<u>(14,184)</u>
Current	(65,853)	(23,708)	(89,561)	(36,746)	(14,254)	(51,000)
Deferred	7,110	2,560	9,670	33,725	3,091	36,816

The changes between the balances of assets and liabilities in 2002, as compared to 2001 (consolidated), differs from the income tax and social contribution in the income statement due to the foreign exchange variation recorded in the accounts of assets and liabilities of the foreign subsidiary companies.

The tax credits recognized based on tax loss carryforwards and social contribution negative basis, both in the parent company and consolidated, are supported by projections of future taxable income at present value, based on technical studies of feasibility. The subsidiary Açominas has tax loss carryforwards of R\$ 1,973,557 and social contribution negative basis to offset of R\$ 1,592,869, which credits are recognized up to the limit of its capacity to generate taxable income, calculated for the next three years. The credits, based on timing differences, mainly on tax contingencies, were maintained according to its probability of realization, after the evaluation of our legal advisors, although they are subject to judicial decisions which are difficult to forecast.

The estimative of recovery for credits recognized in the balance sheet of the parent company and consolidated is distributed as follows:

<u>Year</u>	<u>Company</u>	<u>Consolidated</u>
2003	20,849	116,979
2004	13,791	76,306
2005	1,207	75,881
2006	5,095	54,901
2007	8,618	71,564
	<u>49,560</u>	<u>395,631</u>

#### NOTE 10 – COMPULSORY DEPOSITS AND OTHER

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Compulsory deposits	21,085	39,403	68,604	44,016
Receivable under contract	1,676	3,821	11,630	11,316
ICMS credit balance on acquisition of property, plant and equipment	22,856	9,472	22,856	19,261
Income tax incentives	11,040	14,292	11,329	14,632
Prepaid expenses	-	-	44,314	17,383
Swap operation credits	38,647	-	38,647	-
Assets not for use	-	-	37,947	17,577
Other	-	-	20,596	10,409
	<u>95,304</u>	<u>66,988</u>	<u>255,923</u>	<u>134,594</u>

**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT**

	<b>Company</b>				
		<b>2002</b>	<b>2001</b>		
	<b>Annual depreciation rate - %</b>	<b>Cost</b>	<b>Depreciation and accumulated depletion</b>	<b>Net</b>	<b>Net</b>
Land, buildings and constructions	0 to 4	684,539	(245,798)	438,741	430,543
Machinery, equipment and facilities	10	2,024,668	(1,174,510)	850,158	852,295
Furniture and fixture	10	34,658	(26,369)	8,289	9,245
Vehicles	20	20,185	(16,166)	4,019	4,863
Data electronic equipment	20	158,984	(94,899)	64,085	70,431
Construction in progress	-	226,371	-	226,371	183,828
Forestation/reforestation projects	Cut plan	111,259	(30,379)	80,880	62,296
		<u>3,260,664</u>	<u>(1,588,121)</u>	<u>1,672,543</u>	<u>1,613,501</u>
		<b>Consolidated</b>			
				<b>2002</b>	<b>2001</b>
	<b>Annual depreciation rate - %</b>	<b>Cost</b>	<b>Depreciation and accumulated depreciation</b>	<b>Net</b>	<b>Net</b>
Land, buildings and constructions	0 to 5	3,442,778	(999,567)	2,443,211	2,035,718
Machinery, equipment and facilities	2 to 10	7,210,844	(2,649,861)	4,560,983	3,151,528
Furniture and fixtures	10	123,602	(82,460)	41,142	40,531
Vehicles	10 to 20	37,541	(30,457)	7,084	8,153
Data electronic equipment	10 to 20	173,088	(103,282)	69,806	74,898
Construction in progress	-	357,086	-	357,086	403,440
Forestation/reforestation projects	Cut plan	172,290	(54,284)	118,006	93,600
		<u>11,517,229</u>	<u>(3,919,911)</u>	<u>7,597,318</u>	<u>5,807,868</u>

a) **Insured amounts** – the assets are insured against fire, electrical damages and explosion. The coverage is determined based on the risks involved. The plants of the North American subsidiaries and the subsidiary Açominas have coverage for business interruption.

b) **Capitalization of interest and financial charges** – during the year, it was capitalized the amounts of R\$ 5,819 – company and R\$ 8,971 - consolidated (R\$ 6,789 – company and R\$ 11,706 consolidated, in 2001).

c) **Summary of property, plant and equipment activity:**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Balance at the beginning of the year	1,613,501	1,629,641	5,807,868	3,848,751
( + ) Acquisitions/disposals for the year	239,631	151,566	574,018	470,834
( - ) Depreciation and depletion on cost of sales	(151,780)	(137,955)	(439,410)	(328,013)
( - ) Administrative depletion and depreciation	(28,809)	(29,751)	(67,378)	(39,646)
( + ) Increase in interest in consolidated companies	-	-	1,000,425	1,724,403
( - ) Loss effect of interest in associated companies	-	-	(23,141)	-
( + ) Foreign exchange effect on foreign constructions	-	-	744,936	131,539
Balance at the end of the year	<u>1,672,543</u>	<u>1,613,501</u>	<u>7,597,318</u>	<u>5,807,868</u>

**NOTE 12 – DEFERRED CHARGES**

Deferred charges (parent company and consolidated) comprise pre-operating expenses for projects relating to steel mill renovations, reforestation, research, development and reorganization.

**NOTE 13 – NATIONAL AND FOREIGN LOANS**

Loans are summarized as follows:

	Annual charges (%)	Company		Consolidated	
		2002	2001	2002	2001
<b>SHORT TERM</b>					
Working capital loans (R\$)	TR + 15.49%	150,298	865	156,581	932
Fixed assets loans (R\$)	15.84%	-	-	5,148	-
Investment loans (R\$)	IGPM + 12%	-	-	-	333,780
Working capital loans (US\$)	3.82% to 11.13%	434,509	12,745	2,198,350	1,087,990
Fixed assets loans and other (US\$)	3.75% to 10.65%	-	-	11,299	20,732
Working capital loans (Cdn\$)	5.61%	-	-	-	39,003
Working capital loans (Clp\$)	2.40% to 5.88%	-	-	50,597	-
Working capital loans (Ar\$)	10.80%	-	-	5,125	-
Fixed assets loans (Ar\$)	8.44%	-	-	741	-
Short-term portion of long-term loans		<u>652,657</u>	<u>309,694</u>	<u>1,280,075</u>	<u>619,533</u>
		1,237,464	323,304	3,707,916	2,101,970
<b>LONGTERM</b>					
Working capital loans (R\$)	14.44%	-	-	72,642	31,875
Fixed assets loans and other (R\$)	9.44% to 15.84%	484,143	419,292	695,971	546,586
Working capital loans (Cdn\$)	4.25%	-	-	108,037	-
Fixed assets loans and other (US\$)	3.75% to 10.65%	406,783	287,788	1,366,963	658,894
Working capital loans (US\$)	3.82% to 11.13%	793,895	454,872	1,636,269	1,024,396
Investment loans (US\$)	5.53%	-	-	-	199,308
Working capital loans (Clp\$)	2.40% to 5.88%	-	-	29,779	-
Fixed assets loans (Clp\$)	5.80%	-	-	120,897	-
Working capital loans (Ar\$)	10.80%	-	-	9	-
(-) Short-term portion		<u>(652,657)</u>	<u>(309,694)</u>	<u>(1,280,075)</u>	<u>(619,533)</u>
		<u>1,032,164</u>	<u>852,258</u>	<u>2,750,492</u>	<u>1,841,526</u>
Total loans		<u>2,269,628</u>	<u>1,175,562</u>	<u>6,458,408</u>	<u>3,943,496</u>

Summary by currency:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Brazilian real (R\$)	634,441	420,157	930,342	913,173
U.S. dollar (US\$)	1,635,187	755,405	5,212,881	2,991,320
Canadian dollar (Cdn\$)	-	-	108,037	39,003
Chilean peso (Clp\$)	-	-	201,273	-
Argentine peso (Ar\$)	-	-	5,875	-
	<u>2,269,628</u>	<u>1,175,562</u>	<u>6,458,408</u>	<u>3,943,496</u>

Government Agency for Machinery and Equipment Financing (FINAME) loans are guaranteed by lien on the assets acquired. Other loans are guaranteed by collateral signatures of controlling companies, on which the company pays a remuneration of 1% p.a., calculated based on the guaranteed amount.

Eurobond contracts include covenants limiting the loans to four times the cash generation capacity (Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)).

Under the agreement with the National Bank for Economic and Social Development (BNDES) to finance the acquisition of interest in Açominas, loans are limited to five times EBITDA.

Prepayment transactions include covenants limiting the loans to four times EBITDA.

Subsidiaries Gerdau Ameristeel Cambridge Inc. and Gerdau Ameristeel MRM Special Sections Inc. have access to revolving credit facilities totaling Cdn\$ 73,000, equivalent to R\$ 163,454 on the balance sheet date, and with interest rates that closely approximate market rates for prime customers of 4.15% p.a. .

Subsidiary Ameristeel Corporation has access to revolving credit facilities totaling US\$ 254,000, equivalent to R\$ 897,458 on the balance sheet date, with interest of 4.2% p.a.

At December 31, 2002, all the covenants mentioned above are in compliance with the requirements, being the penalty for noncompliance the accelerated maturity of the finance agreement. Consolidated EBITDA is used for measuring purposes.

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

	<u>Parent company</u>	<u>Consolidated</u>
2004	486,531	1,218,122
2005	218,624	894,109
2006	202,280	263,354
2007	20,309	123,420
2008	48,774	154,818
After 2008	55,646	96,669
	<u>1,032,164</u>	<u>2,750,492</u>

## NOTE 14– DEBENTURES

Issuer	General Meeting	Number		Maturity	Annual rate	2002	2001
		Issued	Portfolio				
3 <sup>a</sup> - A and B	05.27.82	48,000	30,747	06.01.2011	CDI	55,427	46,967
4 <sup>a</sup>	06.10.83	42,000	42,000	02.28.2012	CDI	-	-
5 <sup>a</sup>	11.29.89	29,986	-	12.05.2005	TR + 8%	-	18,832
7 <sup>a</sup>	07.14.82	22,800	14,487	07.01.2012	CDI	34,058	14,691
8 <sup>a</sup>	11.11.82	59,988	44,501	05.02.2013	CDI	41,457	40,613
9 <sup>a</sup>	06.10.83	41,880	21,917	09.01.2014	CDI	81,791	100,426
10 <sup>a</sup>	02.27.81	6,450	6,450	11.30.2015	CDI	-	-
11 <sup>a</sup> - A and B	06.29.90	50,000	45,600	06.01.2020	CDI	17,090	14,471
13 <sup>a</sup>	11.23.01	30,000	-	11.01.2008	CDI + 1%	310,099	-
<b>Company</b>						539,922	236,000
Seiva S.A. – Florestas e Indústrias	11.11.81	12,000	12,000	11.01.2015	variable	-	-
Gerdau Ameristeel Corp.	04.23.97	125,000	-	04.30.2007	6.50%	198,063	-
Debentures held by consolidated subsidiary companies						(28,618)	(12,726)
<b>Consolidated</b>						709,367	223,274
(-) Short-term portion – parent company and consolidated						-	(4,683)
Consolidated long-term portion						709,367	218,591

At August 9, 2002, the company distributed the 13 issue of debentures, in the amount of R\$ 300,000, which have covenants limiting the gross consolidated debt to four times the EBITDA, with penalty of accelerated maturity for noncompliance.

The debentures of Gerdau AmeriSteel Corporation are convertible into common shares, up to the maturity date of the debentures.

From the outstanding debentures, the controlling shareholders hold, direct or indirectly, the amount of R\$ 91,375, at December 31, 2002.

## NOTE 15 – FINANCIAL INSTRUMENTS

**a) General comments** - Gerdau S.A. and its subsidiaries enter into transactions involving financial instruments, which risks are managed through strategy and systems to control exposure limits. All transactions are fully recognized in the books and restricted to the instruments listed below:

- **short-term investments** – are recognized at their redemption value as of the balance sheet date and are commented on and presented in Note 5;
- **investments and loans between subsidiary and associated companies** – are commented on and presented in Note 3d and investment table (attached to the same note), respectively.
- **loans** – are commented on and presented in Note 13;
- **debentures** – are commented on and presented in Note 14.

- **financial derivatives** – in order to minimize the effects of fluctuations in foreign exchange rates on its liabilities, Gerdau S.A. entered into swap transactions that were converted into Brazilian reais on the contract date and linked to changes in the Interbank Deposit Rate (CDI). The subsidiary company Açominas also made swap transactions, subject to the CDI variation. Swap contracts are listed below:

				<b>Company</b>
<b>Contract date</b>	<b>Type</b>	<b>Amount (US\$ thousand)</b>	<b>CDI portion</b>	<b>Maturity</b>
02.12 to 07.18.2001	Eurobonds	130,000	84.5% to 103.70%	05.20.2004
03.30.2001 to 12.16.2002	Import	31,949	24% to 100.00%	01.09.2003 to 10.04.2004
07.16 to 07.18.2001	Prepayment	38,115	85.44% to 92.80%	03.01.2006
02.20 to 08.06.2002	Resolution 2770	124,000	26.63% to 34.31%	03.03.2004 to 06.20.2005
08.26 to 12.30.2002	Advance on Export Contracts (ACC)	140,669	-1.14% to 61.50%	01.24 to 09.22.2003
05 to 02.07.2002	Investments	216,000	70.65%	10.29.2004
				<b>Consolidated</b>
<b>Contract date</b>	<b>Type</b>	<b>Amount (US\$ thousand)</b>	<b>CDI portion</b>	<b>Maturity</b>
05.06 to 05.08.2002	Suppliers	85,000	97.00% to 100.00%	04.01 to 07.01.2004
02.12 to 07.18.2001	Eurobonds	130,000	84.5% to 103.70%	05.20.2004
03.30.2001 to 12.16.2002	Import	31,949	24% to 100.00%	01.09.2003 to 10.04.2004
05.07 to 08.27.2002	Prepayment	83,115	85.44% to 100.00%	02.03.2003 to 03.01.2006
02.20 to 08.06.2002	Resolution 2770	124,000	26.63% to 34.31%	03.03.2004 to 06.20.2005
08.23 to 12.30.2002	ACC	300,539	-20.30% to 61.50%	01.10.2003 to 07.28.2004
05 to 02.07.2002	Investments	216,000	70.65%	10.29.2004

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

	<b>Company</b>			
	<b>2002</b>		<b>2001</b>	
	<b>Book value</b>	<b>Market value</b>	<b>Book value</b>	<b>Market value</b>
Short-term investments	327,087	327,087	177,227	177,227
Credits on swap transactions	38,647	38,647	-	-
Eurobonds	307,429	377,501	291,386	294,111
Importation loans	406,784	399,162	251,388	251,388
Prepayment loans	133,194	138,046	137,337	137,337
Working capital loans	1,378,702	1,349,230	468,482	468,482
Other loans	43,519	43,519	26,969	26,969
Debentures	539,922	539,922	236,000	236,000
Investments	4,410,913	4,410,913	1,759,939	1,759,939
Related companies (assets)	8,825	8,825	33,595	33,595
Related companies (liabilities)	1,048,425	1,048,425	-	-

  

	<b>Consolidated</b>			
	<b>2002</b>		<b>2001</b>	
	<b>Book value</b>	<b>Market value</b>	<b>Book value</b>	<b>Market value</b>
Short-term investments	1,359,288	1,359,288	1,005,700	1,005,700
Credits on swap transactions	38,647	38,647	-	-
Eurobonds	17,376	36,432	65,044	73,428
Importation loans	406,784	399,162	264,328	264,328
Prepayment loans	905,915	855,763	137,337	137,337
Working capital loans	4,257,380	4,227,907	2,184,196	2,184,196
Other loans	870,953	870,953	1,292,591	1,292,591
Debentures	709,367	709,367	223,274	223,274
Investments	916,234	916,234	310,595	310,595
Related companies (assets)	7,585	7,585	28,093	28,093

The market value of Eurobonds was obtained using the quotation of the securities in the secondary market.

The market value of swap transactions was obtained based on projections of future income or expense for each contract, which were calculated based on the present value of forward US dollar + coupon (assets) and forward CDI (liabilities) using the projected future CDI rate for each maturity. Swap transactions related to loan contracts are classified together with the transactions which have originated them. Contracts not linked to such loans have been recorded at their market value under the heading Credits on swap transactions, in long-term receivables, with a counterpart to financial income.

The Company believes that the amounts of other financial instruments which were accounted for at their net contracted value are substantially similar to those that would be obtained if they were negotiated in the market. However, because the markets for these instruments are not active, differences could exist if it was decided to be settled in advance.

**c) Risk factors that could affect company businesses**

**Risk of price of goods:** this risk is related to the possibility of fluctuations in the prices of products sold or in the prices of raw materials and other input materials used in the production process. Because it operates in the commodities market, sales and cost of goods sold could be affected by changes in international prices. To minimize this risk, price fluctuations are constantly monitored in the domestic and international markets.

**Interest rate risk:** this risk arises as a result of the possibility of losses (or gains) due to fluctuations in interest rates applied to company assets (invested) and liabilities assumed in the market. In order to minimize possible impacts resulting from interest rate fluctuations, the policy is to use variable rates (such as LIBOR and CDI) and periodically renegotiate

contracts to adjust them to the market. It is not the policy to contract hedges in order to protect against interest rate fluctuations.

Exchange rate risk: this risk is related to the possibility of fluctuations in foreign exchange rates affecting financial expenses (or income) and the liability (or asset) balance of contracts denominated in a foreign currency. In order to hedge these fluctuations, a policy of contracting swap operations as stated in item "a" above is adopted.

Credit risk: this arises from the possibility that the Company might not receive amounts from sales transactions or deposits with financial institutions involving financial investment transactions. In order to mitigate this risk, detailed analyses of the financial position of customers are made, credit limits established, and balances constantly monitored. With regard to financial investments, they are made only in institutions that have been assigned a low credit risk by rating agencies. Furthermore, each institution has a maximum limit for investment determined by the credit committee.

#### NOTE 16 – TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Income tax withheld	24,889	10,890	32,383	11,348
Income tax and social contribution on net income	31,825	19,291	38,749	20,463
Social contribution on sales revenue	10,770	8,922	13,589	9,249
Social charges on payroll	18,705	16,303	37,077	17,080
Tax on sales and services (ICMS)	13,736	12,931	14,352	16,386
Industrialized Products Tax (IPI)	1,890	1,768	2,306	1,809
Other	8,296	12,386	28,733	12,124
	<b>110,111</b>	<b>82,491</b>	<b>167,189</b>	<b>88,459</b>

#### NOTE 17 – TAX RECOVERY PROGRAM (REFIS)

On December 6, 2000, the company enrolled in the REFIS, to pay PIS and COFINS in installments. The balances of these tax debts are recorded under taxes and contributions, in current liabilities, and under accounts payable in long-term liabilities. The balances of renegotiated taxes, which payment has been divided into 60 installments, of which 34 installments are falling due and restated by the TJLP rate variation, are as follows, at December 31, 2002:

	<b>Company and consolidated</b>					
	<b>2002</b>			<b>2001</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Social Integration Program (PIS)	14,004	11,651	25,655	28,224	5,252	33,476
Social Contribution on Revenues (COFINS)	3,325	2,766	6,091	6,568	1,379	7,947
Total	<b>17,329</b>	<b>14,417</b>	<b>31,746</b>	<b>34,792</b>	<b>6,631</b>	<b>41,423</b>
Short term	7,170	5,966	13,136	10,183	1,941	12,124
Long term	10,159	8,451	18,610	24,609	4,690	29,299
Total	<b>17,329</b>	<b>14,417</b>	<b>31,746</b>	<b>34,792</b>	<b>6,631</b>	<b>41,423</b>

Taxes, contributions and other liabilities are paid timely, which is a basic requirement to remain enrolled in the REFIS program.

To guarantee this installment payment program, the land and buildings of the Usina de Aços Especiais Piratini Unit located in the city of Charqueadas, state of Rio Grande do Sul, amounting to R\$ 78,494 thousand were pledged.

The total tax credits of income tax and social contribution on third-party net income offset including fines and interest due to the consolidation of the REFIS debts, at December 6, 2000, totaled R\$ 57,040, of which R\$ 4,351 were paid. The own tax credits were not used.

#### NOTE 18 – RESERVE FOR CONTINGENCIES

The companies are parties in labor, civil, and tax law suits. The tax proceedings relate to certain taxes and contributions. Based on the opinion of the legal advisors, management believes that the provision is sufficient to cover probable losses and is reasonably estimated based on unfavorable court decisions and that final decisions would not have significant effects on the financial position as of December 31, 2002.

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Tax contingencies	81,327	90,080	102,708	99,184
Labor contingencies	14,203	14,203	25,319	23,884
Civil contingencies	-	381	45,416	6,612
<b>Total</b>	<b>95,530</b>	<b>104,664</b>	<b>173,443</b>	<b>129,680</b>

Of the total provision balance, R\$ 50,456 (R\$ 50,457 - consolidated) refer to contingency of compulsory loans to Eletrobrás, which constitutionality is being questioned by the Company. In March 1995, the Federal Supreme Court judged one of the proceedings against the Company. Subsequently, other proceedings also had unfavorable outcomes. The remaining law suits are pending of decision, but the outcomes can already be expected due to the previous decisions.

The Company established a provision related to “compulsory loans”, taking into consideration that, although the payment to Eletrobrás be made as loan: (i) an unfavorable judicial decision would result in a negative equity effect; (ii) the reimbursement to the Company would probably be in the form of shares of Eletrobrás; and (iii) based on the current available information, the shares of Eletrobrás will value less than 5% of the amount that would be received if the payment was made in cash.

Also included in the provision, are R\$ 7,149 (R\$ 7,206 in consolidated) related to the discussion of FINSOCIAL, and the most part of the proceedings are in the Superior Courts; R\$ 932 (R\$ 11,044 - consolidated) relating to amounts of Value Added Tax on Sales and Services (ICMS), being the most part of them in progress in the Court of Justice; R\$ 2,974 (R\$ 3,142 - consolidated) relating to social contribution on net income, which most part of the proceedings are in the Superior Courts; R\$ 7,176 (company and consolidated) relating to Provisional Contribution on Financial Activities (CPMF), in the TRF of the 4<sup>th</sup> Region; R\$ 16,698 (company and consolidated) relating to income tax under discussion in the administrative levels, R\$ 12,107 (R\$ 19,964 - consolidated) on the National Institute of Social Security (INSS), judicial discussion in progress in the 1<sup>st</sup> instance of the Federal Justice of the State of Rio de Janeiro; R\$ 1,831 (R\$ 2,384 - consolidated) relating to amounts of contributions to the Social Integration Program (PIS) and R\$ 6,899 (R\$ 7,293 - consolidated) on Social Contribution on Revenues (COFINS), in the TRF of the 2<sup>nd</sup> Region; and R\$ 1,175 (R\$ 3,575 - consolidated) relating to other tax proceedings. Management believes that these proceedings will not be all concluded before a period of two years. Among these contingencies, management understands that the CPMF subject will probably have an unfavorable decision, while there is a possible probability that the other contingencies will occur.

The Company is also party in law suits related to labor, for which, at December 31, 2002, it was set up a provision of R\$ 14,203 (R\$ 25,319 - consolidated) relating to such contingencies. None of these lawsuits refers to individually significant values, and the discussion mainly involve claims of additional hours, health hazards and risk premium, among others.

In addition to these contingencies, the Company is also party, in the consolidated, in lawsuits arising from the normal course of its operations, of civil nature, and recorded, at December 31, 2002, R\$ 45,416 as contingent liability relating to

this subject. Management classifies, based on the opinion of its legal advisors, as possible the probability of occurrence of these contingencies.

The judicial deposits in court, which represent restrict assets of the Company, are related to amounts paid to in court and maintained until the final decision of these lawsuits. The balance of these credits, at December 31, 2002, is R\$ 26,070 in company and R\$ 26,231 in consolidated, and is classified as an account to reduce the provision for contingencies recorded.

Management believes, based on the opinion of its legal advisors, that the possibility of unfavorable outcomes arising from other contingencies affect the result of operations or the consolidated financial position of the Company is remote, and the balance of these contingencies, at December 31, 2002, totaled R\$ 41,077.

#### **NOTE 19 – SHAREHOLDERS' EQUITY**

- a) **Capital** – authorized capital, at December 31, 2002 and 2001, is comprised by 240,000,000,000 common shares and 480,000,000,000 preferred shares, with no nominal value, according to changes approved at the Extraordinary General Meeting held on April 28, 2000.

At December 31, 2002, it is subscribed and paid up 39,590,941,783 common shares (39,382,020,386 at December 31, 2001) and 74,527,528,780 preferred shares (74,109,685,986 at December 31, 2001), totaling R\$ 1,335,120 (R\$ 1,320,133 at December 31, 2001). The preferred shares do not have voting rights e cannot be redeemed, but have the same conditions when compared to the common shares considering profit sharing.

At June 5, 2002, BNDES Participações S.A. – BNDESPAR converted 29,986 debentures of the 5<sup>a</sup> issue of Gerdau S.A. into shares of the Company. Due to this operation, the 5<sup>a</sup> issue of debentures was totally settled and the capital was increased by R\$ 14,987, with the issuance of 626,764,191 shares.

- b) **Interest on capital** – the Company calculated interest on capital according to the terms established by Law 9249/95. The corresponding amount was recorded as financial expenses for tax purposes. For presentation purposes, this amount was presented as dividends, not affecting the income statement. The amount of interest on capital (R\$ 265,896) was credited to the shareholders to replace the statutory dividend (30%), demonstrated as follows:

	<u>2002</u>	<u>2001</u>
Net income for the year	798,688	464,006
Realization of unrealized profit reserve on equity pick up	-	20,455
Prior-year adjustment	4,533	-
Constitution of legal reserve	<u>(40,161)</u>	<u>(23,201)</u>
Adjusted net income	<u>763,060</u>	<u>461,260</u>
Interest on capital – 1 <sup>st</sup> six-month period	79,883	48,119
Interest on capital – 2 <sup>nd</sup> six-month period	<u>186,013</u>	<u>116,067</u>
Interest on capital	<u>265,896</u>	<u>164,186</u>
% of paid or credited interest	35%	36%
Per thousand common shares – 1 <sup>st</sup> six-month period – R\$	0.7000	0.3980
Per thousand preferred shares - 1 <sup>st</sup> six-month period – R\$	0.7000	0.4378
Per thousand common shares – 2 <sup>nd</sup> six-month period – R\$	1.6300	0.9600
Per thousand preferred shares - 2 <sup>nd</sup> six-month period – R\$	1.6300	1.0560

The remaining income for the year was used to the constitution of statutory reserve for investments and working capital according to the bylaws.

Management will propose the capitalization of the amount of income reserves exceeding the capital amount.

#### **NOTE 20 – STATUTORY PROFIT SHARING**

The management's profit sharing is limited to 10% of corporate net income for the year, after income tax and the amount discounted.

#### **NOTE 21 – GUARANTEES GRANTED**

Company is the guarantor of the joint subsidiary Dona Francisca Energética S.A., for loan agreements, in the total amount of R\$ 116,878, by the percentage corresponding to 51.82% granted as guarantee. The Company is also the guarantor of the vendor operations of the associated company Banco Gerdau S.A., in the total amount of R\$ 49,079, at December 31, 2002, and of the credit agreement operations of the subsidiary GTL Trade Finance Inc., in the amount of US\$ 25,000, equivalent to R\$ 88,332 on the balance sheet date.

## NOTE 22 – POST-RETIREMENT BENEFITS

### a) Pension plan – defined benefit

The Company and other Group subsidiaries in Brazil are the co-sponsors of defined benefit pension plans that cover almost all employees in Brazil (Gerdau Plan and Açominas Plan). Also, the Canadian and American subsidiaries sponsor defined benefit plans (Canadian Plan and American Plan) that cover almost all their employees. In addition to the pension plan, the American Plan establishes specific health benefits for retired employees, as long as they retire after a certain age and after completing a specific number of years of service. The American subsidiary has the right to modify or eliminate these benefits. Contributions are based on amounts determined on an actuarial basis.

The Gerdau Plan is managed by Gerdau – Sociedade de Previdência Privada, an entity created by the Gerdau Group for this purpose. The assets of the Gerdau Plan consist of investments in bank deposit certificates, securities and mutual investment funds. The Açominas Plan is administered by Fundação Açominas de Seguridade Social (Aços), a private pension fund created for this specific purpose by Açominas. The Canadian and American plans are managed by Royal Trust/Great West Life and Wells Fargo, respectively. The total cost of this pension plan was R\$ 1,621 in 2002 and R\$ 2,374 in 2001 for Company and R\$ 39,647 in 2002 and R\$ 18,003 in 2001 for consolidated.

Current expenses of the defined pension plan are as follows:

	Company		Consolidated	
	2002	2001	2002	2001
Current service cost	5,222	-	38,086	11,374
Interest cost	12,157	-	97,323	25,203
Return on plan assets	(12,924)	-	(114,659)	(28,307)
Amortization of prior service cost	-	-	867	400
Amortization of (gain) loss	-	-	(862)	21
Estimated contribution of participants	-	-	(3,576)	-
Amortization of unrecognized transitory liabilities	-	-	507	(81)
Net cost of pension plan	<u>4,455</u>	<u>-</u>	<u>17,686</u>	<u>8,610</u>

The reconciliation of assets and liabilities of the plans is presented below:

	Company		Consolidated	
	2002	2001	2002	2001
Total liabilities	(141,739)	(125,833)	(1,554,265)	(785,920)
Fair value of plan assets	149,865	132,676	1,381,200	816,002
Asset (liability) balance	8,126	6,843	(173,065)	30,082
Unrecognized gains or (losses)	(4,416)	-	119,100	42,875
Prior service cost	-	-	9,061	(515)
Other	-	-	6,014	(477)
Total assets (liabilities), net	<u>3,710</u>	<u>6,843</u>	<u>(38,890)</u>	<u>71,965</u>
Actuarial assets	3,710	6,843	174,917	105,012
Pension plan liabilities recognized in the balance sheet	-	-	(347,982)	(33,047)
Assets (liabilities), net	<u>3,710</u>	<u>6,843</u>	<u>(173,065)</u>	<u>71,965</u>

Changes in plan assets and actuarial liabilities were as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Change in benefit obligation				
Benefit obligation at the beginning of the period	125,833	-	785,920	339,060
Acquisitions	-	-	369,905	-
Foreign exchange effect on foreign companies	-	-	233,760	-
Service cost	5,222	-	35,694	11,374
Interest cost	12,157	-	89,344	25,203
Participants' contributions	-	-	1,879	-
Actuarial loss (gain)	617	-	78,897	19,904
Payment of benefits	(2,090)	-	(48,670)	(16,881)
Adjustment of initial liability recognition	-	125,833	7,536	407,260
Benefit obligation at the end of the period	<u>141,739</u>	<u>125,833</u>	<u>1,554,265</u>	<u>785,920</u>

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Change in plan assets				
Fair value of plan assets at the beginning of the period	132,676	-	816,002	323,730
Acquisitions	-	-	281,350	-
Foreign exchange effect of foreign companies	-	-	164,386	-
Return on plan assets	17,957	-	116,196	(2,619)
Sponsors' contributions	1,322	-	46,684	4,236
Participants' contributions	-	-	5,252	-
Payment of benefits	(2,090)	-	(48,670)	(16,881)
Adjustment of initial asset recognition	-	132,676	-	507,536
Fair value of plan assets at the end of the period	<u>149,865</u>	<u>132,676</u>	<u>1,381,200</u>	<u>816,002</u>

The table below shows a summary of the assumptions made to calculate and record the defined benefit plan for both parent company and consolidated:

	<u>Gerdau plan</u>	<u>Açominas plan</u>	<u>North America plan</u>
Average discount rate	<b>10.25%</b>	<b>10.24%</b>	<b>6.50%</b>
Rate of increase of remuneration	<b>9.20%</b>	<b>7.75%</b>	<b>4.25%</b>
Expected rate of return on assets	<b>10.25%</b>	<b>10.24%</b>	<b>7.50% to 8.00%</b>
Mortality chart	<b>GAM 1971</b>	<b>AT-49</b>	<b>GAM 83</b>
Disabled mortality chart	<b>RRB 1944</b>	<b>IAPB-55</b>	<b>GAM 83</b>

**b) Pension plan – defined contribution**

The parent company is also the co-sponsor of a defined contribution pension plan administered by Gerdau – Sociedade de Previdência Privada. Contributions are based on a percentage of the compensation of employees.

The foreign subsidiary company AmeriSteel Corporation has a defined contribution plan, which contributions correspond to 50% of the amount paid by the participants, limited to 4% of the salary. The other companies do not have this pension plan mode.

The total cost of this mode was R\$ 1,851 in 2002 and R\$ 1,492 in 2001 for Company and R\$ 37,336 in 2002 and R\$ 1,536 in 2001 for consolidated.

**c) Retirement and termination benefits**

The Company estimates that the amount payable, due to employees' retirement or termination benefits, totaled R\$ 9,689 (company and consolidated) at December 31, 2002 (R\$ 13,331 in 2001 – company and consolidated).

Taking all types of benefits granted to employees into consideration, the position of assets and liabilities was as follows as of December 31, 2002:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Pension plan liabilities – defined benefit	-	-	347,982	33,047
Retirement and termination benefits payable	9,689	13,331	9,689	13,331
Total liabilities	9,689	13,331	357,671	46,378
Unrecognized actuarial assets	3,710	6,843	174,917	105,012

**NOTE 23 – INFORMATION BY GEOGRAPHIC AREA AND BUSINESS SEGMENT**

Geographic area	<u>Consolidated</u>					
	<u>Brazil</u>		<u>South America (*)</u>		<u>North America</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Gross sales revenue	6,566,650	4,531,284	529,599	331,177	4,047,711	2,221,140
Net sales revenue	5,247,913	3,557,515	400,468	271,169	3,513,331	2,059,719
Cost of sales	(3,141,725)	(2,237,802)	(275,140)	(197,605)	(3,122,128)	(1,799,739)
Gross profit	2,106,188	1,319,713	125,328	73,564	391,203	259,980
Sales expenses	(284,142)	(225,800)	(8,708)	(14,503)	(44,739)	(24,387)
Net financial income	(941,570)	(322,219)	(69,518)	(54,047)	(72,557)	(123,629)
General and administrative expenses	(437,851)	(324,167)	(30,404)	(16,684)	(196,530)	(128,794)
Operating income	810,826	603,869	49,426	(11,112)	101,226	(19,359)
Net income for the year	679,088	511,990	33,561	3,121	105,289	31,184
EBITDA (**)	1,674,807	1,002,036	109,968	58,616	347,341	249,308

(\*) Do not include Brazilian operations.

(\*\*) Income before financial expenses, income tax and social contribution, and depreciation and amortization.

**Gross sales revenue by market**

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Domestic market	4,703,617	3,689,687	5,310,087	4,008,146
Foreign market	389,490	258,186	1,256,563	523,138
Foreign companies	-	-	4,577,310	2,552,317
	<u>5,093,107</u>	<u>3,947,873</u>	<u>11,143,960</u>	<u>7,083,601</u>

**Gross sales revenue by business segment**

	<b>Company</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Industry	2,434,505	1,887,083	5,424,288	3,447,921
Civil construction	2,113,639	1,638,367	5,012,936	3,186,447
Other	544,963	422,423	706,736	449,233
	<u>5,093,107</u>	<u>3,947,873</u>	<u>11,143,960</u>	<u>7,083,601</u>

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(A free translation of the original Portuguese prepared  
in conformity with accounting practices adopted in Brazil)

GERDAU S.A.

Attachment to Note 3d

**INVESTMENTS IN SUBSIDIARIES AND RELATED COMPANIES**  
(Amounts expressed in thousands of reais)

**a) INVESTMENT BALANCES**

					<b>Company</b>	
					<b>2002</b>	<b>2001</b>
	<b>Investment</b>	<b>Provision for losses</b>	<b>Deposit for future capital increase</b>	<b>Goodwill</b>	<b>Total</b>	<b>Total</b>
Subsidiary companies:						
Gerdau Internacional Empreendimentos Ltda. (*)	2.552.311	-	646.101	-	3.198.412	1.038.291
Gerdau Participações Ltda. (**)	529.284	-	441.948	-	971.232	520.594
Armafer Serviços de Construção Ltda.	182.651	-	7.100	-	189.751	168.742
Dona Francisca Energética S.A.	-	(7.891)	6.736	24.390	23.235	14.531
Seiva S.A. - Florestas e Indústrias	6.826	-	-	-	6.826	-
Other	2.542	-	1.635	-	4.177	4.000
					4.393.633	1.746.158
Other investments					17.280	13.781
					<u>4.410.913</u>	<u>1.759.939</u>

(\*) Company holding investments in foreign companies

(\*\*) Company investing in Açominas

	<b>Consolidated</b>			
	<b>2002</b>		<b>2001</b>	
	<b>Investment</b>	<b>Goodwill (negative goodwill)</b>	<b>Total</b>	<b>Total</b>
AmeriSteel Corporation	-	365.520	365.520	276.134
Gerdau AmeriSteel Corporation	-	105.826	105.826	-
Gallatin Steel Co	385.568	-	385.568	-
MRS Logística S.A.	4.772	-	4.772	4.050
Dona Francisca Energética S.A.	-	24.390	24.390	14.531
Joint venture account	10.152	-	10.152	9.567
Other investments	13.910	6.096	20.006	6.313
			<u>916.234</u>	<u>310.595</u>

**b) INFORMATION ON INVESTMENTS**

	<b>Company - 2002</b>						
	<b>Capital</b>	<b>Shareholders' equity</b>	<b>Net income</b>	<b>Equity in the earnings</b>	<b>Percentage of ownership</b>	<b>Quotas held</b>	<b>Shares held</b>
Subsidiary companies:							
Gerdau Internacional Empreendimentos Ltda.	1.505.996	2.556.652	409.296	411.977	99,83%	1.503.439.672	-
Seiva S.A. - Florestas e Indústrias	74.280	144.594	17.307	3.676	4,72%	-	450.000
Gerdau Participações Ltda.	422.266	588.245	40.541	36.738	89,98%	379.941.045	-
Dona Francisca Energética S.A. (*)	66.600	(15.226)	(166.251)	(309)	51,82%	-	345.109.212
Armafer Serviços de Construção Ltda.	146.756	182.651	(6.152)	(6.152)	100,00%	146.756.269	-
Other (**)	-	-	-	(52.783)	-	-	-
				<u>393.147</u>			

(\*) At December 24, 2002, due to the acquisition of 30% of the investee's capital, Gerdau S.A. made an adjustment of R\$ (17,724), equivalent to the already existing interest of 21.82%, being the effect recognized in non-operating income.

The equity in the earnings represents the interest of 51.82% on investee's income for the year ended December 2002.

(\*\*) The net equity in "Other" refers, basically, to the subsidiary company Sociedad Industrial Puntana S.A. – SIPSA, which share control was transferred in the first quarter of this year.

(A free translation of the original Portuguese prepared  
in conformity with accounting practices adopted in Brazil)

**c) COMPOSITION OF LOAN BALANCES**

	Company		Balance	
	2002	2001	2002	2001
<b>Assets</b>				
Gerdau Foundation	7.925	7.652	7.867	7.815
Sipar Aceros S.A.	12.366	-	7.636	-
Grupo Gerdau Empreendimentos Ltda. and other	(4.894)	27.107	(7.918)	20.278
Seiva S.A. - Florestas e Indústrias	(264)	(1.626)	-	-
Armafer Serviços de Construção Ltda.	(2.786)	1.601	-	-
Florestal Rio Largo Ltda.	(3.522)	(1.139)	-	-
Total assets	8.825	33.595	7.585	28.093
<b>Liabilities</b>				
GTL Equity Investments Corp.	(88.064)	-	-	-
GTL Financial Corp.	(960.361)	-	-	-
Total liabilities	(1.048.425)	-	-	-
Financial income (expenses)	(203.403)	4.694	(394)	5.978

The loan contracts between Brazilian companies are restated by the weighted average rate of funds obtained in the market. The contracts with foreign companies are restated by charges (LIBOR + 3% p.a) plus foreign exchange variation.

Due to the combination of operations between Co-Steel Inc. and the North America Gerdau companies, the company raised financings which were borrowed by subsidiary companies in Canada, due to the acquisition of Ameristeel Corp., in the amount of US\$ 266 million, equivalent, at December 31, 2002, to R\$ 960 million. The assumption of debt was made in the form of capitalization of the holding resulting from this combination.

**d) COMMERCIAL OPERATIONS**

	Company - 2002				Company - 2001			
	Sales	Purchases/ expenses	Accounts receivable	Accounts payable	Sales	Purchases/ expenses	Accounts receivable	Accounts payable
Armafer Serviços de Construção Ltda.	71	-	12	-	12	-	-	-
Aço Minas Gerais S.A. - Açominas	5.246	146.031	689	7.312	137	113.328	-	7.351
Sociedad Industrial Puntana S.A. - SIPSA	-	-	-	-	592	-	29	-
Gerdau Laisa S.A.	1.579	-	194	-	4.689	-	632	-
Gerdau Aza S.A.	3.247	-	49	-	3.639	-	398	-
Sipar Aceros S.A.	12.903	-	9.254	-	19.015	-	4.026	-
Grupo Gerdau Empreendimentos Ltda. (*)	-	600	-	-	-	600	-	-
Indac - Ind. Adm. e Comércio S.A. (**)	-	7.096	-	-	-	11.686	-	-

The purchase and sales transactions of inputs and products are made under the conditions and terms similar to the transactions with unrelated parties.

(\*) Payments for the use of the trademark Gerdau.

(\*\*) Payments for financing guarantees.