

GERDAU S.A.
Form 20-F
April 23, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14878

GERDAU S.A.
(Exact name of Registrant as specified in its charter)

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

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

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Av. Farrapos 1811

Porto Alegre, Rio Grande do Sul - Brazil CEP 90220-005
(Address of principal executive offices) (Zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2011 was:

573,627,483 Common Shares, no par value per share
1,146,031,245 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

Unless otherwise indicated, all references herein to:

(i) the Company, Gerdau, we or us are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil) and its consolidated subsidiaries;

(ii) Açominas are references to Aço Minas Gerais S.A. Açominas prior to November 2003 whose business was to operate the Ouro Branco steel mill. In November 2003 the company underwent a corporate reorganization, receiving all of Gerdau's Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A.;

(iii) Gerdau Açominas are references to Gerdau Açominas S.A. after November 2003 and to Açominas before such date. In July 2005, certain assets and liabilities of Gerdau Açominas were spun-off to four other newly created entities: Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Gerdau América do Sul Participações. As a result of such spin-off, as from July 2005, the activities of Gerdau Açominas only comprise the operation of the Açominas steel mill;

(iv) Chaparral Steel or to Chaparral are references to Chaparral Steel Company, a corporation organized under the laws of the State of Delaware, and its consolidated subsidiaries;

(v) Preferred Shares and Common Shares refer to the Company's authorized and outstanding preferred stock and common stock, designated as *ações preferenciais* and *ações ordinárias*, respectively, all without par value. All references herein to the *real*, *reais* or *R\$* are to the Brazilian *real*, the official currency of Brazil. All references to (i) U.S. dollars, dollars, U.S.\$ or \$ are to the official currency of the United States, (ii) Canadian dollars or Cdn\$ are to the official currency of Canada, (iii) Euro or are to the official currency of Europe, (iv) billions are to thousands of millions, (v) km are to kilometers, and (vi) tonnes are to metric tones;

(vi) Installed capacity means the annual projected capacity for a particular facility (excluding the portion that is not attributable to our participation in a facility owned by a jointly controlled entity), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

(vii) Tonne means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds;

(viii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, Latin America, North America and Europe, excluding our jointly-controlled entities and associate companies;

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(ix) worldsteel means World Steel Association, IABr means Brazilian Steel Institute (Instituto Aço Brasil) and AISI means American Iron and Steel Institute;

(x) CPI means consumer price index, CDI means Interbanking Deposit Rates (Certificados de Depósito Interfinanceiro), IGP-M means Consumer Prices Index (Índice Geral de Preços do Mercado), measured by FGV (Fundação Getúlio Vargas), LIBOR means London Interbank Offered Rate, GDP means Gross Domestic Product;

(xi) Brazil BO means Brazil Business Operation, North America BO means North America Business Operation, Latin America BO means Latin America Business Operation, Specialty Steel BO means Specialty Steel Business Operation.

The Company has prepared the consolidated financial statements included herein in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The investments in Gallatin Steel Co. (Gallatin), Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investments in Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, the investments in the holding company Multisteel Business Holdings Corp., in which the Company holds a 49% stake, which holds 99.13% of the capital stock of Industrias Nacionales, C. por A. (INCA), in Dominican Republic, the investments in the holding company Corsa Controladora, S.A. de C.V., in which the Company holds a 49% stake, which holds the capital stock of Aceros Corsa S.A. de C.V., in Mexico, the investments in the holding company Corporacion Centroamericana del Acero S.A., in which the Company holds a 30% stake, which holds the capital stock of Aceros de Guatemala S.A., in Guatemala, the investments in Gerdau Corsa S.A.P.I. de C.V., in Mexico, in which the Company holds a 50% stake, the investments in Kalyani Gerdau Steel Ltd., in India, in which the Company holds an 80.57% stake, and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake, are accounted for using the equity method.

Unless otherwise indicated, all information in this Annual Report is stated for December 31, 2011. Subsequent developments are discussed in Item 8.B - Financial Information - Significant Changes.

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CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to our future prospects, developments and business strategies.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

It is possible that our future performance may differ materially from our current assessments due to a number of factors, including the following:

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;

- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;

- our ability to obtain financing on satisfactory terms;

- prices and availability of raw materials;

- changes in international trade;

- changes in laws and regulations;

- electric energy shortages and government responses to them;

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- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under Risk Factors.

Our forward-looking statements are not guarantees of future performance, and actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 3. KEY INFORMATION**A. SELECTED FINANCIAL DATA**

The selected financial information for the Company included in the following tables should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and *Operating and Financial Review and Prospects* appearing elsewhere in this Annual Report. The consolidated financial data of the Company as of and for each of the years ended on December 31, 2011, 2010, 2009, 2008 and 2007 are derived from the financial statements prepared in accordance with IFRS and presented in Brazilian Reais.

IFRS Summary Financial and Operating Data

	(Expressed in thousands of Brazilian Reais - R\$ except quantity of shares and amounts per share)				
	2011	2010	2009	2008	2007
NET SALES	35,406,780	31,393,209	26,540,050	41,907,845	30,613,528
Cost of sales	(30,298,232)	(25,873,476)	(22,305,550)	(31,228,035)	(23,326,075)
GROSS PROFIT	5,108,548	5,519,733	4,234,500	10,679,810	7,287,453
Selling expenses	(603,747)	(551,547)	(429,612)	(479,551)	(426,765)
General and administrative expenses	(1,797,937)	(1,805,914)	(1,714,494)	(2,284,857)	(1,884,405)
Reversal of impairment (impairment) of assets		336,346	(1,072,190)		
Restructuring costs			(150,707)		
Other operating income	195,015	207,320	190,157	205,676	110,721
Other operating expenses	(85,533)	(100,840)	(101,810)	(116,064)	(282,679)
Equity in earnings (losses) of unconsolidated companies, net	62,662	39,454	(108,957)	122,808	118,399

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INCOME BEFORE FINANCIAL					
INCOME (EXPENSES) AND TAXES	2,879,008	3,644,552	846,887	8,127,822	4,922,724
Financial income	455,802	295,563	436,236	484,046	810,137
Financial expenses	(970,457)	(1,097,633)	(1,286,368)	(1,620,782)	(1,202,027)
Exchange variations, net	51,757	104,364	1,060,883	(1,035,576)	723,289
Gains and losses on financial instruments, net	(65,438)	12,392	(26,178)	(62,396)	1,170
INCOME BEFORE TAXES	2,350,672	2,959,238	1,031,460	5,893,114	5,255,293
Income and social contribution taxes					
Current	(519,843)	(642,306)	(303,272)	(1,423,660)	(872,315)
Deferred	266,747	140,447	276,320	475,444	(80,012)
NET INCOME	2,097,576	2,457,379	1,004,508	4,944,898	4,302,966
ATTRIBUTABLE TO:					
Owners of the parent	2,005,727	2,142,488	1,121,966	3,940,505	3,549,881
No-controlling interests	91,849	314,891	(117,458)	1,004,393	753,085
	2,097,576	2,457,379	1,004,508	4,944,898	4,302,966
Basic earnings per share (1) in R\$					
Common	1.22	1.50	0.79	2.83	2.68
Preferred	1.22	1.50	0.79	2.83	2.68
Diluted earnings per share (1) in R\$					
Common	1.22	1.50	0.79	2.75	2.66
Preferred	1.22	1.50	0.79	2.75	2.66
Cash dividends declared per share (1) in R\$					
Common	0.35	0.44	0.25	0.79	0.63
Preferred	0.35	0.44	0.25	0.79	0.63
Weighted average Common Shares					
outstanding during the year	550,305,197	494,888,956	494,888,956	485,403,980	463,214,016(2)
Weighted average Preferred Shares					
outstanding during the year	1,092,338,207	930,434,530	925,676,955	905,257,476	861,908,769(2)
Number of Common Shares outstanding					
at year end	573,627,483	505,600,573	496,586,494	496,586,494	463,214,016(3)
Number of Preferred Shares outstanding					
at year end	1,146,031,245	1,011,201,145	934,793,732	934,793,732	871,972,082(3)

(1) Per share information has been retroactively restated for 2007 to reflect the effect of: (a) the stock bonus of one share for every share held approved in April 2008. Earnings per share has been computed on weighted average share outstanding during each year.

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(2) The information on the numbers of shares presented above relate to the weighted average, and the year of 2007 was retroactively restated to reflect changes in numbers of shares due to the transactions described in (1) above.

(3) The information on the numbers of shares presented above relate to the end of year, and the year of 2007 was retroactively restated to reflect changes in numbers of shares due to the transactions described in (1) above.

	2011	2010	On December 31, 2009	2008	2007
	(Expressed in thousands of Brazilian Reais - R\$)				
Balance sheet selected information					
Cash and cash equivalents	1,476,599	1,061,034	2,091,944	2,026,609	2,026,096
Short-term investments (1)	3,101,649	1,115,461	2,677,714	3,386,637	3,113,277
Current assets	17,319,149	12,945,944	14,164,686	20,775,540	15,312,973
Current liabilities	6,777,001	5,021,900	4,818,521	8,475,437	6,587,148
Net working capital (2)	10,542,148	7,924,044	9,346,165	12,300,103	8,725,825
Property, plant and equipment, net	17,295,071	16,171,560	16,731,101	20,054,747	15,827,944
Net assets (3)	26,519,803	20,147,615	22,004,793	25,043,578	16,723,208
Total assets	49,981,794	42,891,260	44,583,316	59,050,514	41,553,912
Short-term debt (including Current Portion of Long-Term Debt)	1,715,305	1,577,968	1,356,781	3,788,085	2,500,985
Long-term debt, less current portion	11,182,290	12,360,056	12,563,155	18,595,002	12,461,128
Debentures - short term	41,688	115,069		145,034	38,125
Debentures - long term	744,245	616,902	600,979	705,715	903,151
Equity	26,519,803	20,147,615	22,004,793	25,043,578	16,723,208
Capital stock	19,249,181	15,651,352	14,184,805	14,184,805	7,810,453

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- (1) Include trading and available for sale.
- (2) Total current assets less total current liabilities.
- (3) Total assets less total current liabilities and less total non current liabilities.

Exchange rates between the United States Dollar and Brazilian Reais

The following table presents the exchange rates, according to the Brazilian Central Bank, for the periods indicated between the United States dollar and the Brazilian *real* which is the currency in which we prepare our financial statements included in this Annual Report on Form 20-F.

Period	Exchange rates from U.S. dollars to Brazilian reais			
	Period- end	Average	High	Low
April-2012 (through April, 19)	1.8867	1.8392	1.8867	1.8256
March-2012	1.8221	1.7953	1.8334	1.7152

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February-2012	1.7086	1.7184	1.7376	1.7024
January-2012	1.7391	1.7897	1.8683	1.7389
December-2011	1.8758	1.8369	1.8758	1.7830
November-2011	1.8109	1.7905	1.8937	1.7270
October - 2011	1.6885	1.7726	1.8856	1.6885
2011	1.8758	1.6746	1.9016	1.5345
2010	1.6662	1.7593	1.8811	1.6554
2009	1.7412	1.9935	2.4218	1.7024
2008	2.3370	1.8375	2.5004	1.5593
2007	1.7713	1.9483	2.1556	1.7325

Dividends

The Company's total authorized capital stock is composed of common and preferred shares. As of December 31, 2011, the Company had 573,627,483 common shares and 1,146,031,245 non-voting preferred shares outstanding.

The following table details dividends and interest on equity paid to holders of common and preferred stock since 2007. The figures are expressed in Brazilian *reais* and converted into U.S. dollars on the date of the resolution approving the dividend. Dividends per share figures have been retroactively adjusted for all periods to reflect the stock dividend of one share for every share held (April 2008).

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Dividend per share information has been computed by dividing dividends and interest on equity by the number of shares outstanding, which excludes treasury stock. The table below presents the quarterly dividends payment, except where stated otherwise:

Period	Date of Resolution	R\$ per Share Common or Preferred Stock	\$ per Share Common or Preferred Stock
1st Quarter 2007 (1)	05/03/2007	0.1700	0.0840
2nd Quarter 2007	08/08/2007	0.1450	0.0769
3rd Quarter 2007 (1)	11/07/2007	0.1700	0.0977
4th Quarter 2007	02/13/2008	0.1450	0.0831
1st Quarter 2008 (1)	05/12/2008	0.2050	0.1224
2nd Quarter 2008	08/06/2008	0.3600	0.2281
3rd Quarter 2008	11/05/2008	0.1800	0.0849
4th Quarter 2008	02/19/2009	0.0400	0.0172
3rd Quarter 2009 (1)	11/05/2009	0.0750	0.0435
4th Quarter 2009 (1)	12/23/2009	0.1800	0.1013
1st Quarter 2010 (1)	05/06/2010	0.1200	0.0654
2st Quarter 2010	08/05/2010	0.1400	0.0798
3st Quarter 2010 (1)	11/05/2010	0.1200	0.0714
4st Quarter 2010	03/03/2011	0.0600	0.0363
1st Quarter 2011	05/05/2011	0.0600	0.0370
2st Quarter 2011 (1)	08/04/2011	0.0900	0.0571
3st Quarter 2011	11/10/2011	0.1200	0.0681
4st Quarter 2011	02/15/2012	0.0800	0.0466

(1) Payment of interest on equity.

Note: the Company did not advance dividends in the 1st and 2nd quarter of 2009.

Brazilian Law 9,249 of December 1995 provides that a company may, at its sole discretion, pay interest on equity in addition to or instead of dividends (See Item 8 Financial Information - Interest on Equity). A Brazilian corporation is entitled to pay its shareholders interest on equity up to the limit based on the application of the TJLP rate (Long-Term Interest Rate) to its shareholders' equity or 50% of the net income in the fiscal year, whichever is lower. This payment is considered part of the mandatory dividend required by Brazilian Corporation Law for each fiscal year. The payment of interest on equity described herein is subject to a 15% withholding tax. See Item 10. Additional Information - Taxation.

In the fourth quarter of 2008, Gerdau launched the Dividend Reinvestment Plan (DRIP), which is a program that allows the holders of Gerdau ADRs to reinvest dividends to purchase additional ADRs in the Company, with no issuance of new shares. In January 2009, Gerdau provided its shareholders a similar program in Brazil that allows the reinvestment of dividends in additional shares, with no issuance of new shares.

B. CAPITALIZATION AND INDEBTEDNESS

Not required, as the Company is filing this Form 20-F as an annual report.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not required, as the Company is filing this Form 20-F as an annual report.

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D. RISK FACTORS

The Company may not successfully integrate its businesses, management, operations or products, or achieve any of the benefits anticipated from future acquisitions.

Over the years, the Company has expanded its presence mainly through acquisitions in the North American and Latin American markets. The integration of the business and opportunities stemming from entities recently acquired and those that may be acquired by the Company in the future may involve risks. The Company may not successfully integrate acquired businesses, managements, operations, products and services with its current operations. The diversion of management's attention from its existing businesses, as well as problems that can arise in connection with the integration of the new operations may have an impact on revenue and operating results. The integration of acquisitions may result in additional expenses that could reduce profitability. The Company may not succeed in addressing these risks or any other problems encountered in connection with past and future acquisitions.

All these acquisitions generated a large amount of goodwill, which is stated in the Company's balance sheet. The Company evaluates the recoverability of this goodwill on investments annually and uses accepted market practices, including discounted cash flow for business segments which have goodwill. A downturn in the steel market could negatively impact expectations for future earnings, leading to the need to recognize an expense in its statement of income regarding the impairment in goodwill.

The Company may be unable to reduce its financial leverage, which could increase its cost of capital, in turn adversely affecting its financial condition or operating results.

In 2007, the international rating agencies Fitch Ratings and Standard & Poor's classified the Company's credit risk as investment grade, which gave the Company access to financing at lower borrowing rates. Due to its acquisitions in recent years, its total debt/EBITDA ratio reached the maximum normally accepted by the agencies for an investment grade rating. In the first half of 2009, Standard & Poor's put Gerdau on a CreditWatch Negative listing reflecting its views of the Company's weakening cash flow and credit metrics in the currently challenging market environment. Considering that the market conditions have been improving since the low point of December 2008 and January 2009, Standard & Poor's believed that the Company would have the ability to strengthen its credit metrics in the second half of 2009 reiterating its investment grade. The gradual recovery in the Company's operational cash generation and the efforts to reduce its levels of indebtedness during 2010 and 2011 helped the Company to maintain its credit rating. In the beginning of December 2011, Moody's assigned the Investment Grade rating Baa3 for all of Gerdau's ratings, with a stable perspective. With this upgrade from Moody's, Gerdau currently has the Investment Grade of three of principal rating agencies: Fitch Ratings, Moody's and Standard & Poor's.

If the Company is unable to maintain its operating and financial results, it may lose its investment grade rating, which could increase its cost of capital and consequently adversely affect its financial condition and operating results.

The Company's level of indebtedness could adversely affect its ability to raise additional capital to fund operations, limit the ability to react to changes in the economy or the industry and prevent it from meeting its obligations under its debt agreements.

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The Company's degree of leverage could have important consequences, including the following:

- it may limit the ability to obtain additional financing for working capital, additions to fixed assets, product development, debt service requirements, acquisitions and general corporate or other purposes;
- it may limit the ability to declare dividends on its shares and ADSs;
- a portion of the cash flows from operations must be dedicated to the payment of interest on existing indebtedness and is not available for other purposes, including operations, additions to fixed assets and future business opportunities;
- it may limit the ability to adjust to changing market conditions and place the Company at a competitive disadvantage compared to its competitors that have less debt;
- the Company may be vulnerable in a downturn in general economic conditions;
- the Company may be required to adjust the level of funds available for additions to fixed assets; and
- Pursuant to the financial agreements, the penalty for non-compliance with such financial covenants can be a declaration of default by the creditors of the relevant loans. Furthermore, there were R\$9.4 billion of the

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Company's total indebtedness as of December 31, 2011 that are subject to cross-default provisions, with threshold amounts varying from US\$10 million to US\$100 million, depending on the agreement. Thus, there is a risk that an event of default in one single debt agreement can potentially trigger events of default in other debt agreements.

Under the terms of its existing indebtedness, the Company is permitted to incur additional debt in certain circumstances; doing so could increase the risks described above.

Unexpected equipment failures may lead to production curtailments or shutdowns.

The Company operates several steel plants in different sites. Nevertheless, interruptions in the production capabilities at the Company's principal sites would increase production costs and reduce sales and earnings for the affected period. In addition to periodic equipment failures, the Company's facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. The Company's manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect the Company's productivity and results of operations. Moreover, any interruption in production capability may require the Company to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. The Company's insurance may not cover the losses. In addition, long-term business disruption could harm the Company's reputation and result in a loss of customers, which could materially adversely affect the business, results of operations, cash flows and financial condition.

The interests of our controlling shareholder may conflict with the interests of our non-controlling shareholders.

Subject to the provisions of our By-Laws, our controlling shareholder has powers to:

- elect a majority of our directors and nominate executive officers, establish our administrative policy and exercise full control of our management;

- sell or otherwise transfer their shares in our Company; and

- approve any action requiring the approval of shareholders representing a majority of our outstanding capital stock, including corporate reorganization, acquisition and sale of assets, and payment of any future dividends.

By having such power, the controlling shareholder can make decisions that may conflict with the interest of the Company and other shareholders.

Non-controlling shareholders may have their stake diluted in an eventual capital increase.

If the Company decides to make a capital increase through issuance of securities, there may be a dilution of the interest of the non-controlling shareholders in the current composition of the Company's capital.

Participation in other activities related to the steel industry may conflict with the interest of subsidiaries and affiliates.

Through its subsidiaries and affiliates, the Company also engages in other activities related to production and sale of steel products, including reforestation projects; power generation; production of coking coal, iron ore and pig iron; and fab shops and downstream operations. For having the management control in these companies, the Company's interests may conflict with the interest of these subsidiaries and affiliates, which can even lead to new strategic direction for these businesses.

Higher steel scrap prices or a reduction in supply could adversely affect production costs and operating margins.

The main metal input for the Company's mini-mills, which mills accounted for 76.6% of total crude steel output in 2011 (in volume), is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. local market, because the United States is the main scrap exporter, scrap prices in the Brazilian market are set by domestic supply and demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a corresponding increase in finished steel sale prices, the Company's profits and margins could be adversely affected. An increase in steel scrap prices or a shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues.

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Increases in iron ore and coal prices, or reductions in market supply, could adversely affect the Company's operations.

When the prices of the raw materials, particularly iron ore and coking coal, increase, and the Company needs to produce steel in its integrated facilities, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its Açominas mill, and at its Gerdau Barão de Cocais and Gerdau Divinópolis units in the state of Minas Gerais, as well as Siderperu mill, in Peru. Iron ore is also used to produce sponge iron at the Gerdau Usiba unit in the state of Bahia.

The Açominas mill is the Company's largest mill in Brazil, and its main metal input for the production of steel is iron ore. In 2011, this unit represented 49.4% of the total crude steel output (in volume) of Gerdau's Brazilian operations. A shortage of iron ore in the domestic market may adversely affect the steel producing capacity of its Brazilian units, and an increase in iron ore prices could reduce profit margins.

The Company has iron ore mines in the state of Minas Gerais, Brazil. To reduce the exposure to iron ore price volatility, we are investing in the expansion of the productive capacity of these mines, which we expect to meet 100% of the iron ore requirements of the Açominas mill by the end of 2012.

All of the Company's coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input at the Açominas mill and is used at the coking facility. Although this mill is not dependent on coke supplies, a contraction in the supply of coking coal could adversely affect the integrated operations at this site, since the Açominas mill requires coking coal to produce coke in its coking facility. The coking coal used in Açominas mill is imported from Canada, the United States, Australia and Colombia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Açominas mill, and an increase in prices could reduce profit margins. The Company does not have long-term supply contracts for certain raw materials it uses.

The Company's operations are energy-intensive, and energy shortages or higher energy prices could have an adverse affect.

Steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. Electricity represents a significant cost component at these units, as also does natural gas, although to a lesser extent. Electricity cannot be replaced at the Company's mills and power rationing or shortages, like those that occurred in Brazil in 2001, could adversely affect production at those units.

Natural gas is used in the reheating furnaces at the Company's rolling mills. In the case of shortages in the supply of natural gas, the Company could in some instances change to fuel oil or LPG as an energy sources. However, these measures could increase its production costs and consequently reduce its operating margins.

A default by customers or non-receipt by the Company of claims held by financial institutions and generated by financial investment operations may adversely affect the Company's revenues.

This risk arises from the possibility of the Company not receive amounts due to sales transactions or claims held by financial institutions generated by financial investment operations. To mitigate this risk, the Company adopts as procedures, the detailed analysis of the financial position of its customers, the establishment of a credit limit and the constantly monitoring of their balances.

Global crises and subsequent economic slowdowns like those that occurred during 2008 and 2009 may adversely affect global steel demand. As a result, the Company's financial condition and results of operations may be adversely affected.

Historically, the steel industry has been highly cyclical and deeply impacted by economic conditions in general, such as world production capacity and fluctuations in steel imports/exports and the respective import duties. After a steady period of growth between 2004 and 2008, the marked drop in demand resulting from the global economic crisis of 2008-2009 once again demonstrated the vulnerability of the steel market to volatility of international steel prices and raw materials. That crisis was caused by the dramatic increase of high risk real estate financing defaults and foreclosures in the United States, with serious consequences for bank and financial markets throughout the world. Developed markets, such as North America and Europe, experienced a strong recession due to the collapse of real estate financings and the shortage of global credit. As a result, the demand for steel products suffered a decline in 2009, but since 2010 has been showing gradual recovery, principally in the developing economies. The economic downturn and the unprecedented turbulence seen in the global economy had a negative impact on consuming markets, affecting the business environment with respect to the following:

- Decrease in international steel prices;

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- Slump in international steel trading volumes;
- Crisis in automotive industry and infrastructure sectors; and
- Lack of liquidity, mainly in the U.S. economy.

If the Company is not able to remain competitive in these shifting markets, our profitability, margins and income may be negatively affected. Although the demand for steel products in 2010 and 2011 had shown gradual improvements, no assurance can be given that these improvements will continue through the next years. A decline in this trend could result in a decrease in Gerdau shipments and revenues.

Brazil's political and economic conditions and the Brazilian government's economic and other policies may negatively affect demand for the Company's products as well as its net sales and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country's economy. The Brazilian government's actions to control inflation and implement other policies have involved hikes in interest rates, wage and price controls, devaluation of the currency, freezing of bank accounts, capital controls and restrictions on imports.

The Company's operating results and financial condition may be adversely affected by the following factors and the government responses to them:

- exchange rate controls and fluctuations;
- interest rates;
- inflation;
- tax policies;

- energy shortages;
- liquidity of domestic and foreign capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other developments in Brazil's economy and government policies may adversely affect the Company and its business.

Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company's business.

Brazil has experienced high inflation in the past. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA). Inflation measured by the IPCA index was 4.5% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010 and 6.5% in 2011. If Brazil were to experience high levels of inflation once again, the country's rate of economic growth could slow, which would lead to lower demand for the Company's products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, which could lead the cost of servicing the Company's debt denominated in Brazilian reais to increase. Inflation may also hinder its access to capital markets, which could adversely affect its ability to refinance debt. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation that could adversely affect its business.

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Variations in the foreign exchange rates between the U.S. dollar and the currencies of countries in which the Company operates may increase the cost of servicing its debt denominated in foreign currency and adversely affect its overall financial performance.

The Company's operating results are affected by fluctuations in the foreign exchange rates between the Brazilian real, the currency in which the Company prepares its financial statements, and the currencies of the countries in which it operates.

For example, the North America Business Operation reports its results in U.S. dollars. Therefore, fluctuations in the exchange rate between the U.S. dollar and the Brazilian real could affect its operating results. The same occurs with all other businesses located outside Brazil with respect to the exchange rate between the local currency of the respective subsidiary and the Brazilian real.

The Brazilian real appreciated against the U.S. dollar by 25.5% in 2009. On December 31, 2010, the U.S. dollar/Brazilian real exchange rate was \$1.00 per R\$ 1.67, resulting in appreciation of 4.3% when compared to December 31, 2009. At the end of 2011 the Brazilian real had depreciated 12.6% against the U.S. dollar.

Depreciation in the Brazilian real in relation to the U.S. dollar could also result in additional inflationary pressures in Brazil, by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, depreciation in the Brazilian real could weaken investor confidence in Brazil.

The Company held debt denominated in foreign currency, mainly U.S. dollars, in an aggregate amount of R\$ 10.5 billion at December 31, 2011, representing 76.6% of its gross indebtedness on a consolidated basis. On December 31, 2011, the Company held R\$ 991 million in cash equivalents and short-term investments denominated in currencies different from Brazilian real. Significant depreciation in the Brazilian real in relation to the U.S. dollar or other currencies could reduce the Company's ability to service its obligations denominated in foreign currencies, particularly since a significant part of its net sales revenue is denominated in Brazilian reais.

Export revenue and margins are also affected by fluctuations in the exchange rate of the U.S. dollar and other local currencies of the countries where the Company produces in relation to the Brazilian real. The Company's production costs are denominated in local currency but its export sales are generally denominated in U.S. dollars. Revenues generated by exports denominated in U.S. dollars are reduced when they are translated into Brazilian real in periods during which the Brazilian currency appreciates in relation to the U.S. dollar.

Demand for steel is cyclical and a reduction in prevailing world prices for steel could adversely affect the Company's operating results.

The steel industry is highly cyclical. Consequently, the Company is exposed to substantial swings in the demand for steel products, which in turn causes volatility in the prices of most of its products and eventually causing write downs on its inventories. In addition, the demand for steel products, and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic changes in the world economy and in the domestic economies of steel-producing countries, including general trends in the steel, construction and automotive industries. Since 2003, demand for steel products from developing countries (particularly China), the strong euro compared to U.S. dollar and world economic growth have contributed to a historically high level of prices for the Company's steel

products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Since the end of 2009 and throughout 2010 and 2011, the world steel demand and prices have been improving if compared to the beginning of 2009 and the Company believes that this trend will continue throughout 2012. A material decrease in demand for steel or exports by countries not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company's operations and prospects.

Less expensive imports from other countries into Brazil may adversely affect the Company's operating results.

Steel imports in Brazil caused downward pressure on steel prices in 2010, adversely affecting sales and profit margins, especially in the fourth quarter. Competition from foreign steel producers is a threat and may grow due to an increase in foreign installed steel capacity, depreciation of the U.S. dollar and a reduction of domestic steel demand in other markets, with these factors leading to higher levels of steel imports into Brazil at lower prices. Any change in the factors mentioned above, as well as in duties or protectionist measures could result in a higher level of imports into Brazil, resulting in pressures on the domestic prices that could adversely impact our business. During 2011, as a result of higher international prices, the domestic price premium compared to the international price was reduced, avoiding thereby the importation of long steel products and permitting a recovery in the domestic market prices which had been

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pressured by increased raw material costs. The Company believes that the actions adopted in the end of 2010 will reduce the exposure to this risk.

New Entrants into the Brazilian market can affect the Company's competitiveness.

Since 2009, the intention of installing new steel production capacity in Brazil has been announced by a number of players in the industry. If effected, these installations could result in a possible loss of market share, reduction of prices and shortage of raw materials with the resulting increase in their prices.

Our mineral resource estimates may materially differ from mineral quantities that we may be able to actually extract.

Our mining resources are estimated quantities of ore and minerals. There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. In addition, estimates of different engineers may vary. As a result, no assurance can be given that the amount of mining resources will be extracted or that they can be extracted at commercially viable rates.

An increase in China's steelmaking capacity or a slowdown in China's steel consumption could have a material adverse effect on domestic and global steel pricing and could result in increased steel imports into the markets in which we operate.

A significant factor in the worldwide strengthening of steel pricing over the past several years has been the significant growth in steel consumption in China, which at times has outpaced that country's manufacturing capacity to produce enough steel to satisfy its own needs. At times this has resulted in China being a net importer of steel products, as well as a net importer of raw materials and supplies required in the steel manufacturing process. A reduction in China's economic growth rate with a resulting reduction of steel consumption, coupled with China's expansion of steel-making capacity, could have the effect of a substantial weakening of both domestic and global steel demand and steel pricing. Moreover, many Asian and European steel producers that had previously shipped their output to China may ship their steel products to other markets in the world, which could cause a material erosion of margins through a reduction in pricing.

Restrictive measures on trade in steel products may affect the Company's business by increasing the price of its products or reducing its ability to export.

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The Company's exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, ad valorem taxes, tariffs or increases in import duties, any of which could increase the costs of products and make them less competitive or prevent the Company from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties.

Costs related to complying with environmental regulations may increase if requirements become more stringent, which may adversely affect the Company's operating results.

The Company's industrial plants are required to comply with a number of federal, state and municipal environmental laws and regulations with respect to the environment and the operation of mills in every country in which the Company operates. These regulations include environmental licensing procedures, the control of air emissions, waste water discharges and solid and hazardous waste handling and disposal. Failure to comply with these laws and regulations may result in civil and administrative penalties, criminal sanctions or closure orders, and in various circumstances requires the cleanup of the contamination. If existing laws or future legislation become more stringent, expenditure on fixed assets and the costs of compliance may rise, adversely affecting the Company's financial condition. Furthermore, the Company may be subject to additional expenditures and costs associated with environmental compliance as a result of future acquisitions.

Laws and regulations intended to reduce greenhouse gases and other air emissions may be enacted in the future and could have a material adverse effect on the Company's results of operations, cash flows and financial condition.

One of the possible effects of the expansion of CO2 emission requirements is an increase in costs, mainly resulting from demand for renewable energy and implementation of new technology throughout the productive chain. However, we also estimate an increase in demand for products that result in lower emissions and a tendency within the steel sector towards demand for products made through processes that reduce greenhouse gas emissions. It is within this scenario that Brazil Business Operations received the Falcão Bauer ecological seal for civil construction products. This

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certification guarantees that the Company follows sustainable environmental factors in the production of its steel products. Moreover, Gerdau has invested funds to increase solid biofuel consumption as a source of energy in the production of pig-iron. At the same time, the Company has increased its efforts to control and manage CO₂ inventories, which include the use of a number of different technologies.

Published in December 2010, Decree 7,390/2010 laid out regulations for the National Police on Climate Change, seeking to establish sector plans to mitigate and adapt to climate change in the steel sector, in order to consolidate a low carbon consumption economy. These sector plans will be prepared by December 15, 2011 by sector companies in partnership with the government and will include goals for the reduction of emissions in 2020, including gradual measures at three-year intervals, which may demand a material investment by the Company.

The Company expects operations overseas to be affected by future federal, state and provincial laws related to climate change, seeking to deal with the question of green house gas emissions (GHG) and other atmospheric emissions. The provincial governments of Canada, for example, are in the process of implementing legislative measures in the near future, some of which have already become effective. Most likely, one of the effects of this increase in legal requirements will be an upturn in energy costs. Some state governments in the United States, including the governments of California and a growing coalitions of states in the West, Northeast and Mid-Atlantic regions, are also taking active measures to reduce GHG emissions, while the United States federal government is also making moves towards the same form of legislation. Particularly, several pieces of federal legislation limiting greenhouse gas emissions have been presented to the US Congress, some of which could become laws in the future. The American Environmental Protection Agency (EPA) has issued a report stating that current and projected atmospheric concentrations of certain GHGs are a threat to the health and well-being of the public, which could be used as a basis for future action by the Agency. The Canadian government is also closely monitoring events in the United States and has indicated that it intends to work with the U.S. in future initiatives to reduce GHGs and increase the generation of renewable energy. As the details of this legislative platform remain undefined in both the U.S. and Canada, the result could have a negative impact on the Company's operations, cash flow and financial situation.

Layoffs in our labor force have generated severance costs, and such layoffs could reoccur.

A substantial number of our employees are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic negotiation. Strikes or work stoppages have occurred in the past and could reoccur in connection with negotiations of new labor agreements or during other periods for other reasons, including the risk of layoffs during a down cycle that could generate severance costs. Moreover, we could be adversely affected by labor disruptions involving unrelated parties that may provide us with goods or services. Strikes and other labor disruptions at any of our operations could adversely affect the operation of facilities and the timing of completion and the cost of capital of our projects.

Developments and the perception of risks in other countries, especially in the United States and emerging market countries, may adversely affect the market prices of our preferred shares and ADSs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in the United States and emerging market countries, especially other Latin American countries. Although economic conditions are different in each country, the reaction of investors to economic developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign currency invested in Brazil.

The Brazilian economy is also affected by international economic and market conditions, especially economic and market conditions in the United States. Share prices on the BMF&FBOVESPA, for example, have historically been sensitive to fluctuations in United States interest rates as well as movements of the major United States stocks indexes.

Economic developments in other countries and securities markets could adversely affect the market prices of our preferred shares or the ADSs, could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all, and could also have a material adverse effect on our operations and prospects.

Less expensive imports from other countries into North America and Latin America may adversely affect the Company's operating results.

Steel imports in North America and Latin America have forced a reduction in steel prices in the last several years, adversely affecting sales and profit margins. The competition of foreign steel producers is strong and may increase due to the increase in their installed capacity, the depreciation of the U.S. dollar and the reduced domestic demand for steel in other markets, with those factors leading to higher levels of steel imports into North and Latin America at lower prices. In the past, the United States government adopted temporary protectionist measures to control the import of steel

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by means of quotas and tariffs. Some Latin American countries have adopted similar measures. These protectionist measures may not be adopted and, despite efforts to regulate trade, imports at unfair prices may be able to enter into the North American and Latin American markets, resulting in pricing pressures that may adversely affect the Company's results.

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Gerdau S.A. is a Brazilian corporation (*Sociedade Anônima*) that was incorporated on November 20, 1961 under the laws of Brazil. Its main registered office is located at Av. Farrapos, 1811, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number is +55 (51) 3323 2000.

History

The current Company is the product of a number of corporate acquisitions, mergers and other transactions dating back to 1901. The Company began operating in 1901 as the Pontas de Paris nail factory controlled by the Gerdau family based in Porto Alegre, who is still the Company's indirect controlling shareholder. In 1969, Pontas de Paris was renamed Metalúrgica Gerdau S.A., which today is the holding company controlled by the Gerdau family through intermediate holding companies that in turn controls what is today Gerdau S.A.

From 1901 to 1969, the Pontas de Paris nail factory grew and expanded its business into a variety of other steel and steel-related products and services. At the end of World War II, the Company acquired Siderúrgica Riograndense S.A., a steel producer also located in Porto Alegre, in an effort to broaden its activities and provide it with greater access to raw materials. In February 1948, the Company initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces using steel scrap as the main raw material. At that time the Company adopted a regional sales strategy to ensure more competitive operating costs. In 1957, the Company installed a second unit in the state of Rio Grande do Sul in the city of Sapucaia do Sul, and in 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo, also in Rio Grande do Sul.

In 1967, the Company expanded into the Brazilian state of São Paulo, purchasing Fábrica de Arames São Judas Tadeu, a producer of nails and wires, which was later renamed Comercial Gerdau and ultimately became the Company's Brazilian distribution channel for steel products. In June 1969, the Company expanded into the Northeast of Brazil, producing long steel at Siderúrgica Açonorte in the state of Pernambuco. In December 1971, the Company acquired control of Siderúrgica Guafira, a long steel producer in the state of Paraná in Brazil's South Region. The Company also established a new company, Seiva S.A. Florestas e Indústrias, to produce lumber on a sustainable basis for the furniture, pulp and steel industries. In 1979, the Company acquired control of the Cosigua mill in Rio de Janeiro, which currently operates the largest mini-mill in Latin America. Since then, the Company has expanded throughout Brazil with a series of acquisitions and new operations, and today owns 15 steel units in Brazil.

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In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., the only long steel producer in Uruguay, followed in 1989 by the purchase of the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a non-controlling interest in a rolling mill in Argentina, a controlling interest in Diaco S.A. in Colombia, and, most notably, additional interests in North America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In October 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on steel production volume. Gerdau Ameristeel itself has a number of operations throughout Canada and the United States, including its 50% jointly controlled entity interest in Gallatin Steel, a manufacturer of flat steel, and also operates 18 steel units, 49 fabrication shops and 12 downstream operations.

In September 2005, Gerdau acquired 35.98% of the stock issued by Sipar Aceros S.A., a long steel rolling mill with a total installed capacity of 260,000 tonnes of rolled steel, located in the Province of Santa Fé, Argentina. This interest, added to the 38.46% already owned by Gerdau represents 74.44% of the capital stock of Sipar Aceros S.A. At the end of the third quarter of 2005, Gerdau concluded the acquisition of a 57.1% interest in Diaco S.A., the largest rebar manufacturer in Colombia. In January 2008, the Company purchased an additional interest of 40.2%, for \$107.2 million (R\$ 188.7 million on the acquisition date).

In January 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, Gerdau acquired

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40% of the capital stock of Corporación Sidenor S.A. for \$219.2 million (R\$ 493.2 million), the largest long special steel producer, forged parts manufacturer and foundry in Spain, and one of the major producers of forged parts using the stamping process in that country. In December 2008, Gerdau Hungria Holding Limited Liability Company acquired for \$288.0 million (R\$ 674.0 million) from LuxFin Participation S.L., its 20% interest in Corporación Sidenor. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor. In December 2006, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A., had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., a subsidiary of CIE Automotive for \$143.0 million (R\$ 313.8 million).

In March 2006, the assets of two industrial units were acquired in the United States. The first was Callaway Building Products in Knoxville, Tennessee, a supplier of fabricated rebars to the construction industry. The second was Fargo Iron and Metal Company located in Fargo, North Dakota, a storage and scrap processing facility and service provider to manufacturers and construction companies.

In June 2006, Gerdau acquired for \$103.0 million (R\$ 224.5 million) Sheffield Steel Corporation in Sand Springs, Oklahoma in the USA. Sheffield is a mini-mill producer of common long steel, namely concrete reinforcement bars and merchant bars. It has one melt shop and one rolling mill in Sand Springs, Oklahoma, one rolling mill in Joliet, Illinois and three downstream units in Kansas City and Sand Springs.

In the same month, Gerdau S.A. won the bid for 50% plus one share of the capital stock of Empresa Siderúrgica Del Perú S.A.A. (Siderperú) located in the city of Chimbote in Peru for \$60.6 million (R\$ 134.9 million). In November 2006, Gerdau also won the bid for 324,327,847 shares issued by Siderperú, which represented 32.84% of the total capital stock, for \$40.5 million, totaling \$101.1 million (R\$ 219.8 million). This acquisition added to the interest already acquired earlier in the year, for an interest of 83.27% of the capital stock of Siderperú. Siderperú operates a blast furnace, a direct reduction unit, with a total installed capacity of 400,000 tonnes of pig iron, a melt shop with two electric arc furnaces, two LD converters and three rolling mills.

In November 2006, the Company completed the acquisition of a 55% controlling interest in Pacific Coast Steel (PCS), for \$104.0 million (R\$ 227.4 million). The company operates rebar fabrication plants in San Diego, San Bernardino, Fairfield, and Napa, California. Additionally, in April, 2008 Gerdau increased its stake in PCS to 84% paying \$82.0 million (R\$ 138.4 million). The acquisition of PCS expanded the Company's operations to the West Coast of the United States and also added rebar placing capability.

In March 2007, Gerdau acquired Siderúrgica Tultitlán, a mini mill located in the Mexico City metropolitan area that produces rebar and profiles with installed capacity of 500,000 tonnes of crude steel and 340,000 tonnes of rolled steel. The price paid for the acquisition was \$259.0 million (R\$ 536.0 million).

In May 2007, Gerdau acquired an interest of 30.45% in Multisteel Business Holdings Corp., a holding of Industrias Nacionales, C. por A. (INCA), a company located in Santo Domingo, Dominican Republic. INCA is a producer of rolled products, with annual capacity of approximately 300,000 tonnes of rolled steel. This partnership allowed the Company to access the Caribbean market. The total cost of the acquisition was \$42.9 million (R\$ 82.0 million). In July 2007, the Company acquired an additional interest of 18.55% in Multisteel Business Holdings Corp., bringing its total interest in the Company to 49%. The total cost of this second acquisition was \$72.0 million (R\$ 135.2 million).

In June 2007, Gerdau acquired 100% of the capital stock of Siderúrgica Zuliana C.A., a Venezuelan company operating a steel mill in the city of Ojeda, Venezuela. The total cost of the acquisition was \$92.5 million (R\$ 176.2 million).

In the same month, Gerdau and the Kalyani Group from India initiated an agreement to establish a jointly controlled entity for an investment in Tadipatri, India. The jointly controlled entity included an interest of 45% in Kalyani Gerdau Steel Ltd., a producer of steel with two LD converters, one continuous casting unit and facilities for the production of pig iron. The agreement provides for shared control of the jointly controlled entity, and the purchase price was \$73.0 million (R\$ 127.3 million). In May 2008, Gerdau announced the conclusion of this acquisition.

In September 2007, Gerdau Ameristeel concluded the acquisition of Chaparral Steel Company, increasing the Company's portfolio of products and including a comprehensive line of structural steel products. Chaparral operates two mills, one located in Midlothian, Texas, with a total installed capacity of 1.5 million tonnes of crude steel and 1.4 million tonnes of rolled steel and the other located in Petersburg, Virginia, with a total installed capacity of 1.0 million tonnes of crude steel and 1.0 million tonnes of rolled steel. The total cost of the acquisition was \$4.2 billion (R\$ 7.8 billion), plus the assumption of certain liabilities.

In October 2007, Gerdau Ameristeel acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials headquartered in Nashville, Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was \$46 million (R\$ 84.9 million) in cash, plus the

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assumption of certain liabilities of the acquired company.

In the same month, Gerdau executed a letter of intent for the acquisition of an interest of 49% in the capital stock of the holding company Corsa Controladora, S.A. de C.V., headquartered in Mexico City, Mexico. The holding company owns 100% of the capital stock of Aceros Corsa, S.A. de C.V. and its distributors. Aceros Corsa, located in the city of Tlalnepantla in the Mexico City metropolitan area, is a mini-mill responsible for the production of long steel (light commercial profiles). The acquisition price was \$110.7 million (R\$ 186.3 million). In February, 2008, the Company announced conclusion of this acquisition.

In November 2007, Gerdau entered into a binding agreement for the acquisition of the steel company MacSteel from Quanex Corporation. MacSteel is the second largest producer of Special Bar Quality (SBQ) in the United States and operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also operates six downstream operations in the states of Michigan (two), Ohio, Indiana (two) and Wisconsin. MacSteel has annual installed capacity of 1.2 million tonnes of crude steel and 1.1 million tonnes of rolled products. The agreement did not include the Building Products business of Quanex, which is an operation not related to the steel market. The purchase price for this acquisition was \$1.5 billion (R\$ 2.4 billion) in addition to the assumption of their debts and some liabilities. Gerdau concluded the acquisition in April, 2008.

In January 2008, Gerdau acquired an additional interest of 40.2% in the capital of Diaco S.A. for \$107.2 million (R\$ 188.7 million on the date of the acquisition), increasing its interest to 98.7% of the capital stock, a figure that also takes into consideration the dilution of a non-controlling interests, which explains the higher percentage in comparison with the percentages of the two major acquisitions made.

In April 2008, Gerdau entered into a strategic partnership with Corporación Centroamericana del Acero S.A., assuming a 30.0% interest in the capital of this company. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize. The price of the acquisition was \$180 million (R\$ 303.7 million).

In June, 2008, the parent company Metalúrgica Gerdau S.A. acquired a 28.88% stake of voting and total capital in Aços Villares S.A. from BNDESPAR for R\$ 1.3 billion. As a payment, Metalúrgica Gerdau S.A. issued debentures to be exchanged for Gerdau S.A.'s preferred shares. In December, 2009 the Company's stake in Aços Villares S.A. owned through its subsidiary Corporación Sidenor S.A. was transferred to direct control of Gerdau S.A., for US\$ 218 million (R\$ 384 million), which then owned a total 58.5% stake in Aços Villares S.A. In December 30, 2010, Gerdau S.A. and Aços Villares S.A. shareholders approved the merger into Gerdau S.A. of Aços Villares S.A.

Also in 2008, Gerdau invested in the verticalization of its businesses. In July, it acquired a 50.9% stake in the capital of Cleary Holdings Corp, which controls a metallurgical coke producer and coking coal reserves in Colombia for \$ 73.0 million (R\$ 119.3 million).

In December 2008, Gerdau Hungria Holding Limited Liability Company acquired Lux Fin Participation S.L. for \$288.0 million (R\$ 674.0 million), which indirectly holds a 20% interest in Corporación Sidenor. As a result of this acquisition, Gerdau became the majority shareholder (60%) of Corporación Sidenor.

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On August 12, 2010, Gerdau S.A. concluded the acquisition of the remaining interest of 49.1% in the total capital of Cleary Holdings Corp. for US\$57 million. Cleary Holdings Corp. has annual metallurgical coke production capacity of 1.0 million tonnes and estimated coking coal reserves of 20 million tonnes. Its total production is currently allocated to the export market. This acquisition was consistent with the strategy of guaranteeing the supply of coking coal or metallurgical coke for steel production at Gerdau's integrated plants.

On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, for \$11.00 per share in cash, corresponding to a total of \$1.6 billion (R\$ 2.8 billion). With the acquisition, Gerdau Ameristeel was delisted from the New York and Toronto stock exchanges.

On October 21, 2010, Gerdau S.A. concluded, through its wholly-owned subsidiary Gerdau Ameristeel, the acquisition of Tamco, a company based in the state of California. TAMCO is a mini-mill that produces rebars and is one of the largest producers on the West Coast of the United States, with annual capacity of approximately 500,000 tonnes. The acquisition price was approximately US\$ 166.4 million (R\$ 283.1 million).

On December 30, 2010, the shareholders of Gerdau S.A. and Aços Villares S.A. approved the merger of Aços Villares S.A. with Gerdau S.A. The transaction was carried out through a share exchange, whereby the shareholders of Aços Villares S.A. received one share in Gerdau S.A. for each lot of twenty-four shares held. The new shares were credited on February 10, 2011. As a result of the transaction, Aços Villares S.A. was delisted from the Brazilian stock

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exchange. Following the issue of new shares under the merger, on February 30, 2011, the capital stock of Gerdaul S.A. was represented by 505,600,573 common shares and 1,011,201,145 preferred shares.

B. BUSINESS OVERVIEW**Steel Industry**

The world steel industry is composed of hundreds of steel producing installations and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as mini-mills. Integrated steel mills normally produce steel from iron oxide, which is extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Non-integrated steel mills produce steel by melting in electric arc furnaces scrap steel, which occasionally is complemented by other metals such as direct-reduced iron or hot-compressed iron. According to World Steel Association, in 2010 (last information available), 28.7% of the total crude steel production in the world was through mini-mill process and the remaining 71.3% was through the integrated process.

Crude Steel Production by Process in 2010*

Country	Crude Steel Production (in million tonnes)	Production by Process (%)	
		Mini-mill	Integrated
World	1,395	28.7%	71.3%
China	627	9.8%	90.2%
Japan	110	21.8%	78.2%
U.S.A.	81	61.3%	38.7%
Russia	67	26.9%	73.1%
India	67	59.8%	40.2%
S. Korea	58	41.6%	58.4%
Germany	44	30.2%	69.8%
Ukraine	33	4.5%	95.5%
Brazil	33	23.8%	76.2%

Source: worldsteel/monthly statistics

*Last information available

Over the past 15 years, according to World Steel Association, total annual crude steel production has grown from 799 million tonnes in 1997 to 1,527 million tonnes in 2011, for an average annual increase of 4.3%, with a large part of this growth occurring after 2000.

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The main factor responsible for the increase in the demand for steel products has been China. Since 1993, China has become the world's largest steel market and currently consumes as much as the United States and Europe combined.

Over the past year, total annual crude steel production increased by 6.8% from 1,429.9 million tonnes in 2010 to 1,526.9 million tonnes in 2011, triggered mainly by steel production recovery in nearly all the major steel producing countries and regions including South America, Asia and Middle East.

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Crude Steel Production (in million tonnes)

Source: worldsteel/monthly statistics

China is still undergoing a period of strong industrialization, launching numerous infrastructure projects and developing an important manufacturing base, which has contributed to increased Chinese output. China's crude steel production in 2011 reached 695.5 million tonnes, an increase of 8.9% over 2010. This was a record annual crude steel production figure for a single country. China's share of world steel production continued to grow, producing in 2011 45.6% of world total crude steel.

Crude Steel Production by Country in 2011 (million tonnes)

Source: worldsteel/monthly statistics

Asia produced 988.2 million tonnes of crude steel in 2011, an increase of 7.9% compared to 2010, its share of world steel production amounted to 64.7% in 2011. Japan produced 107.6 million tonnes in 2011, a decrease of 1.8% on 2010. India's crude steel production was 72.2 million tonnes in 2011, a 5.7% increase compared with 2010. South Korea showed an increase of 16.2%, produced 68.5 million tonnes in 2011.

The EU-27 where all major steel producing countries including Germany, Italy and France showed an increase of 2.8% compared to 2010, produced 177.4 million tonnes of crude steel in 2011.

In 2011, crude steel production in North America was 118.9 million tonnes, an increase of 6.8% compared with 2010. The United States produced 86.2 million tonnes of crude steel, 7.1% higher than 2010.

The CIS showed a crude steel production increase of 4.0% in 2011. Russia produced 68.7 million tonnes of crude steel, an expansion of 2.7%, while Ukraine recorded an increase of 5.7% with year-end figures of 35.3 million tonnes.

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The Brazilian Steel Industry

Since 1940, steel has been of vital importance to Brazil's economy. For approximately 50 years, the Brazilian government held a monopoly in the production of flat steel products via the state-owned company Siderúrgica Brasileira S.A. (SIDEBRÁS). But the Brazilian government did not hold a monopoly in the non-flat steel industry, traditionally composed mainly of small private companies. The principal integrated producers of flat steel products operated as semi-independent companies under the control of SIDEBRÁS. During the 1970s, the government invested heavily to give Brazil a steel industry capable of fueling the country's industrialization process. After a decade of practically no investments in this industry, the government selected steel as the first industry to be sold in the privatization process that began in 1991.

In 2011, Brazil maintained its position as the world's 9th largest producer of crude steel, with a production of 35.2 million tonnes, a 2.3% share of the world market and 72.7% of the total steel production in Latin America during that year.

Total sales of Brazilian steel products were 31.7 million tonnes in 2011, 29.5 million tonnes in 2010 and 25.0 million tonnes in 2009, exceeding domestic demand of 25.2 million in 2011, 26.6 million tonnes in 2010 and 18.7 million tonnes in 2009. In 2011, total steel sales in the domestic market increased 3.3% compared to 2010, from 20.2 million tonnes to 20.9 million tonnes.

The breakdown of total sales of Brazilian steel products in 2011 was 62.1% or 19.7 million tonnes of flat steel products, formed by domestic sales of 11.3 million tonnes and exports of 8.4 million tonnes. The other 37.9% or 12.0 million tonnes represented sales of long steel products, which were formed by domestic sales of 9.6 million tonnes and exports of 2.4 million tonnes.

Breakdown of Total Sales of Brazilian Steel Products (million tonnes)

(*) Preliminary figures

Source: IABr - Instituto Aço Brasil

Domestic demand - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita domestic consumption varies in accordance with Gross Domestic Product (GDP), variations in steel consumption tend to be more accentuated than changes in the level of economic growth. In 2010, Brazilian GDP increased by 3.8%, grew by 7.5% in 2010 and decreased by 0.6% in 2009. Per capita crude steel consumption in Brazil increased from 89 kilos in 2005 to 134 kilos in 2011, which is still considered low compared to the levels in developed countries.

Exports and imports Over the past 20 years, the Brazilian steel industry has been characterized by a structural need for exports. The Brazilian steel market has undergone periods of excess capacity, cyclical demand and intense competition in recent years. Demand for finished steel products, based on apparent domestic consumption, has lagged total supply (total production plus imports).

In 2011, Brazilian steel exports totaled 10.8 million tonnes, representing 34.1% of total sales (domestic sales plus exports). Brazil has performed an important role in the world export market, principally as an exporter of semi-finished products (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of semi-finished products totaled 7.3 million tonnes in 2011, 5.5 million tonnes in 2010 and 4.7 million tonnes in 2009, representing 67.6%, 59.8% and 54.7% of Brazil's total exports of steel products, respectively.

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Production and Apparent Demand for Steel Products (million tonnes)

Source: worldsteel/Short Range Outlook

Brazil used to be a small importer of steel products. Considering the reduction in the international steel prices during 2010, the appreciation of the *Brazilian real* against the U.S. dollar and the decrease in demand for steel products in developed countries, the Brazilian levels of imports increased from 2.3 million tonnes in 2009 to 5.9 million tonnes in 2010 (excluding the imports made by the steel mills to avoid double counting), representing 22.0% of apparent domestic consumption. In 2011, imports reduced to 3.8 million tones, representing 15.1% of apparent domestic consumption.

Raw materials - One of Brazil's major competitive advantages is the low cost of its raw materials. Brazil has an abundance of high quality iron ore. Various integrated producers are located in the state of Minas Gerais, where some of the world's biggest iron ore mines are located. The cost of iron ore in Brazil is approximately one-fifth of the cost in China and one-third of the cost in United States.

In Brazil, most of the scrap metal utilized by the steel mills comes from the state of São Paulo. Its suppliers deliver scrap metal derived from obsolete products directly to the steel mills. The Brazilian steel industry's dependence on scrap metal is minimal, due to the high percentage of total steel production coming from integrated producers.

Brazil is a net producer of pig iron. Most of Brazil's pig iron is produced in the state of Minas Gerais by several small producers. In Brazil, the price of pig iron is related to the cost of charcoal, an important input and the most volatile component in pig iron's production cost. When the price of charcoal is high, coking coal can be used as a substitute and, although more expensive, it produces more pig iron. Practically all the coking coal is imported because domestic supplies are considered low quality.

North American Steel Industry

The global steel industry is highly cyclical and competitive due to the large number of steel producers, the dependence upon cyclical end markets and the high volatility of raw material and energy prices. The North American steel industry is currently facing a variety of challenges, including volatile pricing, high fixed costs, low priced imports and the diminution of the effect of U.S. tariffs. The future success of North American steel producers is dependent upon numerous factors, including general economic conditions, levels and prices of steel imports and the strength of the U.S. dollar.

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Crude Steel Production by North American Countries (million tonnes)

Source: worldsteel/monthly statistics

Beginning in mid-2000 and continuing through 2002, the North American steel industry experienced a severe downward cycle due to excess global production capacity, high import levels at low prices, including prices that were below the combined costs of production and shipping, and weak general economic conditions. These forces resulted in lower domestic steel prices and significant domestic capacity closures. Prices for many steel products reached 10-year lows in late 2001. As a result of these conditions, over 20 U.S. steel companies sought protection under Chapter 11 of the United States Bankruptcy Code since the beginning of 2000.

In response to these conditions, in March 2002, Former President Bush imposed a series of tariffs and quotas on certain imported steel products under Section 201 of the Trade Act of 1974. These measures were intended to give the domestic steel industry an opportunity to strengthen its competitive position through restructuring and consolidation. On November 10, 2003, the World Trade Organization (WTO) Appellate Body issued a ruling that upheld an initial WTO panel ruling that declared the Section 201 tariffs on steel imports to be in violation of WTO rules concerning safeguard measures. On December 4, 2003, Former President Bush signed a proclamation terminating the steel safeguard tariffs, and announced that the tariffs had achieved their purpose and changed economic circumstances indicated it was time to terminate them. International trade negotiations, such as the ongoing Organization for Economic Cooperation and Development steel subsidy agreement negotiations and the WTO Doha Round negotiations, may affect future international trade rules with respect to trade in steel products.

The North American steel industry has experienced a significant amount of consolidation in the last decade. Bankrupt steel companies, once overburdened with underfunded pension, healthcare and other legacy costs, are being relieved of obligations and purchased by other steel producers. This consolidation, including the purchases of the assets of LTV Corporation, Bethlehem Steel Corporation, Trico Steel Co. LLC and National Steel Corporation, has created a lower operating cost structure for the resulting entities and a less fragmented industry. In the bar sector in 2002, the combination of Gerdau North America and Co-Steel in October 2002 and Nucor Corporation's acquisition of Birmingham Steel Corporation in February 2002 significantly consolidated the market. The Company's acquisition of the North Star Steel assets from Cargill in November 2004, Sheffield Steel Corporation in 2006 and Chaparral Steel Company in September 2007, have further contributed to this consolidation trend. Since the beginning of 2007, Tata Iron and Steel Co. Ltd. acquired Corus Group PLC, SSAB Svenskt Staal AB acquired

Ipsco Inc., Essar Global Ltd. acquired Algoma Steel Inc., United States Steel Corporation acquired Stelco Inc., and Arcelormittal Inc. acquired Bayou Steel Corporation. The Company believes continued consolidation in the North American steel industry will occur over the next several years, resulting in the creation of larger steel companies, the reduction of operating cost structures and further rationalization among steel producers.

The creation of larger and more efficient steel producers resulting from consolidation in the steel industry has strongly contributed to maintenance of profitability in the long term. As a result, the remaining steel producers have become better positioned to tailor production capacity to market demand and have benefited from scale efficiencies. Such factors have improved steel producers' ability to reduce costs, negotiate raw material contracts and better respond to the cyclical nature of the steel industry. In addition, the increase in domestic competition from imports observed in early 2000 has diminished, primarily in response to higher steel prices globally, higher transportation costs resulting from fuel price increases and a weaker U.S. dollar.

The steel industry demonstrated strong performance through the middle of 2008, resulting from the increased global demand for steel related products and a continuing consolidation trend among steel producers. Additionally, through the same time period, the domestic U.S. market experienced a rebound in non-residential construction mainly driven by industrial and infrastructure projects (including highway, energy-related construction and water treatment plants), warehouse space, schools, hospitals and a strong retail market. Beginning in the fall of 2008, the steel industry began feeling the negative effects of the severe economic downturn brought on by the credit crisis. The economic

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downturn continued through 2009 and has resulted in a significant reduction in the production and shipment of steel products in North America, as well as reduced exports of steel products from the United States to other parts of the world. During 2010 and 2011, the economy in North America has been showing signs of upturn, contributing to a gradual recovery in the steel industry, with an important improvement in the automotive sector.

Company Profile

Gerdau S.A. is a company of the Gerdau Group, mainly dedicated to the production and commercialization of steel products in general, through its mills located in Argentina, Brazil, Canada, Chile, Colombia, Spain, United States, Guatemala, India, Mexico, Peru, Dominican Republic, Uruguay and Venezuela.

Gerdau is the leading producer of long steel in the Americas and one of the main suppliers of special long steel in the world. With over 45,000 employees, Gerdau has industrial activities in 14 countries - operating in the Americas, Europe, and Asia - presenting a combined annual installed production capacity of over 25 million tons of steel. Gerdau is the largest recycler in Latin America and the world, transforming millions of tons of scrap into steel every year. With over 140,000 shareholders, Gerdau is listed on the São Paulo, New York and Madrid stock exchanges. To achieve increasing levels of profitability, the Company integrates its supply chain through a network of mills, service centers, fab shops and downstream units and distribution channels strategically positioned in the main consumption centers.

According to the Brazilian Steel Institute (IABr - Instituto Aço Brasil), Gerdau is Brazil's largest producer of long rolled steel. Gerdau holds significant market share in the steel industries of almost all countries where it operates and has been classified by World Steel Association as the world's 13th largest steel producer based on its consolidated crude steel production in 2010.

Gerdau operates steel mills that produce steel by direct iron-ore reduction (DRI) in blast furnaces and in electric arc furnaces (EAF). In Brazil it operates four integrated steel mills, including its largest mill, Açominas mill, an integrated steel mill located in the state of Minas Gerais. The Company currently has a total of 60 steel producing units globally, including jointly controlled entities and associate companies. The jointly controlled entity includes a unit located in the United States for the production of flat rolled steel and another unit in India. The associate companies are Aceros Corsa in Mexico; Corporación Centroamericana del Acero in Guatemala; and INCA in the Dominican Republic.

As of December 31, 2011, total consolidated installed capacity, excluding the Company's investments in jointly controlled entities and associate companies, was 25.3 million tonnes of crude steel and 21.3 million tonnes of rolled steel products. In the same period, the Company had total consolidated assets of R\$ 50.0 billion, consolidated net sales of R\$ 35.4 billion, total consolidated net income (including non-controlling interests) of R\$ 2.1 billion and shareholders' equity (including non-controlling interests) of R\$ 26.5 billion.

Gerdau offers a wide array of steel products, which are manufactured according to an extensive variety of customer specifications. Its product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry such as rods and structural bars, finished products for industry such as commercial rolled steel bars and machine wire and products for farming and agriculture such as poles, smooth wire and barbed wire. Gerdau also produces special steel products utilizing advanced technology and normally with a certain degree of customization for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant and increasing portion of Gerdau's steel production assets is located outside Brazil, particularly in the United States and Canada, as well as in Latin America and Europe. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 19 steel production units in the United States and Canada through its principal entity, Gerdau Ameristeel, and believes that it is one of the market leaders in North America in terms of production of some long steel products, such as rods, commercial rolled steel bars, extruded products and beams.

The Company's operating strategy is based on the acquisition or construction of steel mills located close to its customers and sources of the raw materials required for steel production, such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it has production operations. However, the Company also exports an important portion of its production to other countries.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including reforestation; electric power generation projects; coking coal, iron ore and pig iron production; as well as fab shops and downstream operations.

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Operations

The Company sells its products to a diversified list of customers for use in the construction, manufacturing and agricultural industries. Sales by the Company's Brazilian operations include both domestic and export sales. Most of the sales by the Company's business operations in North and Latin America (except Brazil) are aimed at their respective local markets.

In 2008, the Company's Board of Directors approved the proposal of the Gerdau Executive Committee (the chief operating decision maker) related to the new governance of the Company, which established a new business segmentation, as follows:

- Brazil (Brazil Business Operation) includes Brazil's operations, except special steel;
- North America (North America Business Operation) includes all North American operations, except Mexico and special steel;
- Latin America (Latin America Business Operation) includes all Latin American operations, except for Brazil;
- Special Steel (Special Steel Business Operation) includes the special steel operations in Brazil, Spain and the United States.

Açominas and Long Steel Brazil, previously treated as separate segments, are now reported as a single operating segment since most of their operational support areas are integrated. This means in practical effect that Long Steel Brazil sells part of the Açominas products to the domestic and export markets. In the same way, Açominas's purchasing department is responsible for buying all of Long Steel Brazil's iron ore needs. Furthermore, numerous other services are shared by them, including Human Resources, Information Technology, Accounting, Domestic and Export Sales, Tax and Financial departments. These are examples of the extent of integration of these operations and why the Company decided to change its governance and aggregate the information the chief operating decision maker uses to manage the business. The chief operating decision maker is no longer monitoring individual information about Açominas and Long Steel Brazil, but rather information concerning a unified operating segment styled Operation Brazil. For comparison, information as of December 31, 2008 and 2007 was modified with respect to the information originally reported in order to consider the same criteria established by the new business segmentation established by the Gerdau Executive Committee.

The following tables present the Company's consolidated shipments in tonnage and net sales by Business Operation for the periods indicated:

Shipments*

Gerdau S.A. Consolidated**Shipments by Business****Operations (**)****(1,000 tonnes)**

	Year ended December 31,		
	2011	2010	2009
TOTAL	19,164	17,363	13,987
Brazil	7,065	6,646	5,175
North America	6,528	5,742	4,935
Latin America	2,641	2,211	2,015
Special Steel	2,930	2,764	1,862

(*) The information includes intercompany eliminations inside each business operation.

(**) The information does not include data from jointly controlled entities and associate companies.

Net Sales**Gerdau S.A. Consolidated Net****Sales by Business Operations****(*)****(R\$ million)**

	Year ended December 31,		
	2011	2010	2009
TOTAL	35,407	31,393	26,540
Brazil	13,532	13,013	10,596
North America	10,811	8,836	8,293
Latin America	4,383	3,487	3,137
Special Steel	7,516	6,611	4,777
Intercompany Eliminations	(835)	(554)	(264)

(*) The information does not include data from jointly controlled entities and associate companies.

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Brazil Business Operation

Brazil Business Operation minimizes delays by delivering its products directly to customers through outsourced companies under Gerdau's supervision. Sales trends in both the domestic and export markets are forecast monthly based on historical data for the three preceding months. Brazil Business Operation uses a proprietary information system to stay up-to-date on market developments so that it can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets (Brazilian and export markets) and its ability to monitor and optimize inventory levels for most of its products in accordance with changing demand as key factors to its success.

In the Brazil Business Operation, sales volume in 2011 increased by 6.3% from 2010. Domestic sales volume grew by 7.3%, influenced by good demand in the civil construction industry. In the Brazil Business Operation, the civil construction industry has played an important role in maintaining the demand. According to Sinduscon, the civil construction industry's GDP is expected to grow by 5% in 2012, which indicates a strong demand in this industry in the Brazilian market.

In 2011, approximately 28.2% of the production sold in Brazil was distributed through Comercial Gerdau, the Company's largest distribution channel, with 82 stores throughout Brazil, 40 fabricated reinforcing steel facilities (Prontofer) and four flat steel service centers, serving more than 122,000 customers in the year. Another important distribution channel is the network of more than 26,000 points of sales to which Gerdau sells its products, giving it comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are made by Company employees and authorized sales representatives working on commission. This Business Operation has annual crude steel installed capacity of 9.1 million tonnes and 5.3 million tonnes of finished steel products.

North America Business Operation

The Company operates in North America through Gerdau Ameristeel. The North America Business Operation has annual manufacturing capacity of 9.9 million tonnes of finished steel products. It has a vertically integrated network of 19 steel units and one jointly controlled entity for the operation of a mini-mill, 22 scrap recycling facilities, 12 downstream operations (including three jointly controlled entities) and 48 fab shops. North America Business Operation's products are generally sold to steel service centers and steel fabricators or directly to original equipment manufacturers for use in a variety of industries, including construction, automotive, mining, cellular and electrical transmission, metal construction fabrication and equipment fabrication. Most of the raw material feed stock for the mini-mill operations is recycled steel scrap.

This Business Operation operates mills and downstream. The mills manufacture and market a wide range of steel products, including steel reinforcement bars (rebar), merchant bars, structural shapes, beams, special sections and coiled wire rod. The mills also produce rebar, merchant bars, rod and special bar quality products used by the downstream and transfer these products at an arm's length market price to the downstream. The downstream comprises secondary value-added steel businesses and consists of fabrication of rebars, railroad spikes, cold drawn products, super light beam processing, elevator guide rails, grinding balls, wire mesh and wire drawing.

The downstream strategy is to have production facilities located in close proximity to customers' job sites so that quick delivery is provided to meet their reinforcing steel needs and construction schedules.

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In general, sales of mill finished products to U.S. customers are centrally managed by the Tampa sales office while sales to Canadian customers are managed by the Whitby sales office. There is also a sales office in Selkirk, Manitoba for managing sales of special sections and one in Texas for managing sales of structural products. Metallurgical service representatives at the mills provide technical support to the sales group. Sales of the cold drawn and super light beam products are managed by sales representatives located at their respective facilities. Fabricated rebar and elevator guide rails are generally sold through a bidding process in which employees at the Company's facilities work closely with customers to tailor product requirements, shipping schedules and prices.

At the North America Business Operation, despite the sharp drop-off in sales in 2009, a gradual recovery in demand was observed, as indicated by the 16.4% increase in sales volume in 2010 from 2009 and 13.7% increase in 2011 compared to 2010. The manufacturing industry was the main driver of the recovery in shipments. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, remained above 50, indicating growth. The infrastructure and non-residential segments continue to present stable demand.

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The North America Business Operation accounted for 34.1% of overall Gerdaul shipments, reaching 6.5 million tonnes in 2011. The Company's Canadian operations sell a significant portion of their production in the United States.

Latin America Business Operation

The Latin America Business Operation comprises 17 steel units (including jointly controlled entities and associate companies), 39 retail facilities, 17 fab shops (including jointly controlled entities and associate companies) and 10 scrap processing facilities (including associate companies) located in 9 countries. The entire operation is focused on the respective domestic markets of each country, operating mini-mills facilities with annual manufacturing capacity of 3.0 million tonnes of finished steel products. The Latin American operation accounted for 13.8% of overall Gerdaul shipments, representing 2.6 million tonnes of finished products in 2011, a 19.4% increase compared with 2010. All the countries in this business operation had an increase in its shipments in 2011 when compared to 2010. The main representative countries in the Latin America Business Operation are Chile, Mexico, Colombia and Peru. Gerdaul also operates in the markets of Uruguay, Argentina, Dominican Republic, Venezuela and Guatemala.

Chile - AZA was acquired in 1992, and has installed capacity of 490,000 tonnes of crude steel and 470,000 tonnes of rolled steel. Since the end of 2000, Gerdaul AZA has had a business unit known as AZAonLine, which services customers in Chile through the Internet. This was the first e-commerce initiative in the steel sector in Chile. Customers can track their orders on the Internet, together with product inventories and credit and payment status. They can also access their purchase records as well as generate quality certificates and place orders. Gerdaul AZA sells its products to more than 150 clients, which are both distributors and end-users.

Colombia - Diaco was acquired in September 2005, which the Company believes to have a market share of 33.7% of the Colombian common long steel market. The Company believes it to be the largest producer of steel and rebar in Colombia, selling its products through distributors and clients (end-users) in civil construction, industry and others. Colombian units have annual installed capacity of 550,000 tonnes of crude steel and 650,000 tonnes of rolled products.

Peru - Siderperú was acquired in June of 2006 and is one of the main steel companies in Peru, with more than 50 years of experience in this business. The company sells its products to approximately 400 clients in the construction, manufacturing and mining sectors and has more than 160 distributors. Siderperú has annual installed capacity of 650,000 tonnes of crude steel and 960,000 tonnes of rolled products.

Mexico - Located in the Mexico City metropolitan area, Sidertul produces rebars and structural shapes, with its products primarily used in the domestic market. The Company sells its products to clients and distributors from the construction and manufacturing sectors. Sidertul sells products to around 200 clients and has annual installed capacity of 500,000 tonnes of crude steel and 430,000 tonnes of rolled products.

Special Steel Business Operation

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The Special Steel Business Operation is composed of the operations in Brazil (Charqueadas, Pindamonhangaba, Mogi das Cruzes and Sorocaba), in the United States (MacSteel) and Spain (Corporación Sidor). This operation, in partnership with its customers, produces engineering steel (SBQ), tool steel, stainless steel, rolling mill rolls, large forged and casted engineering pieces. In order to meet the continuous need for innovation, this operation is constantly developing new products, such as micro-alloyed steel for high-power and low-emissions diesel engines, clean steel for application in bearings, and steel with improved machining characteristics that allows higher machining speeds and lower tooling replacement, among others.

The Special Steel Business Operations recorded an increase of 6.0% in sales volume in 2011 from the prior year. The increase is mainly due to the economic recovery in the regions where we operate. The sales volume increase was stronger in the United States and Spain.

In Brazil, Gerdau special steel operations are located in Rio Grande do Sul (Charqueadas) and in São Paulo (Pindamonhangaba, Mogi das Cruzes and Sorocaba). The special steel units in Brazil have a combined annual capacity of 1.4 million tonnes of crude steel and 1.4 million tonnes of rolled products, which is sold in the domestic and export markets. The operation in Brazil has more than 400 customers located mainly in Brazil.

Gerdau maintains a presence in Europe through Corporación Sidor, which sells special steel to the entire continent. Sidor has more than 450 clients located mainly in Spain, France, Germany and Italy. Sidor has an annual installed capacity of 1.0 million tonnes of crude steel and 1.1 million tonnes of rolled products. Sidor also has four downstream operations located in Spain.

Gerdau maintains a presence in North America through MacSteel, the largest SBQ (Special Bar Quality) supplier in the United States. MacSteel operates three mini-mills, located in Jackson, Michigan; Monroe, Michigan; and

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Fort Smith, Arkansas. The Company also operates six downstream operations located in Michigan (two), Ohio, Indiana (two) and Wisconsin. MacSteel has an annual installed capacity of 1.4 million tonnes of crude steel and 1.2 million tonnes of rolled products. MacSteel has more than 240 customers located mainly in the United States, Canada and Mexico.

There are commercial and operational synergies among these units in this business operation through centralized marketing and production strategies.

Exports

Gerdau International Trade (GIT) is responsible for trading all Gerdau's business operations exports and imports in the world.

The current international economic scenario requires special care, especially in relation to financial guarantees for each business, always backed by letters of credit individually analyzed regarding their content and the issuing bank.

Brazil Business Operation, traditionally with more relevance in exports, had their availability reduced due to the momentum of the Brazilian domestic market. On the other hand, there was a significant increase in export volumes for the North America Business Operation.

In 2011 exports accounted for 28.3% of the Brazil Business Operation total sales, approximately the same as in 2010. Brazil Business Operation exports generated revenues of R\$ 2,345.8 million in 2011, totaling 2.0 million tonnes (excluding intercompany sales), representing an increase of 3.8% over 2010.

The export strategy has allowed Gerdau to develop a client base that is more evenly distributed throughout the world, with exports going mainly to Asia, South America and North America.

The following table presents the Company's consolidated exports by destination for the periods indicated:

Gerdau S.A. Consolidated Exports by Destination	Year ended December 31,		
	2011	2010	2009
Total including shipments to subsidiaries (1,000 tonnes)	3,832	3,022	1,858
Africa	7%	3%	19%
Central America	10%	9%	2%
North America	21%	22%	7%
South America	26%	25%	19%

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Asia	28%	32%	40%
Europe	6%	5%	13%
Middle East	2%	4%	0%

The North America Business Operation exported around 651,000 tonnes, accounting for 10.0% of the total sales in this operation in 2011. Latin America Business Operation exported about 54,000 tonnes, accounting for 2.0% of the total sales of this operation in 2011.

Products

The Company supplies its customers with a wide range of products from five major product lines:

Crude Steel (Billets, Blooms and Slabs)

Crude steel products (billets, blooms and slabs) have relatively low added value compared to other steel products. Billets are bars from square sections of long steel that serve as inputs for the production of wire rod, rebars and merchant bars. They are the main product of the Açominas mill. Blooms are used to manufacture products such as springs, forged parts, heavy structural shapes and seamless tubes. Slabs are used in the steel industry for the rolling of a broad range of flat rolled products. Slabs are mainly used to produce hot and cold rolled coils, heavy slabs and profiles.

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Crude steel products may be produced using either the continuous casting or conventional process. In the conventional process, liquid steel is poured into ingot moulds for rolling. The hot ingots are sent to the primary rolling mill to be heated in soaking pits and then are rolled to produce crude steel products (billets, blooms and slabs). Although this conventional process is not widely used in Brazil, it is still employed at the Company's Açominas mill. The use of a conventional casting system may represent a competitive advantage since the Company believes it is one of the only companies manufacturing billets and blooms in Brazil, leading the Company to have captive customers for these products in Brazil and also outside the country.

Common Long Rolled Products

Common long rolled products represent a major portion of the Company's production. The Company's main long rolled products include rebars, merchant bars and profiles, which are used mainly by the construction and manufacturing industries.

Drawn Products

Drawn products include barbed and barbless fence wire, galvanized wire, fences, concrete reinforcing wire mesh, nails and clamps. These products are not exported and are usually sold to the manufacturing, construction and agricultural industries.

Special Steel Products

Special or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. The Company produces special and stainless steel used in tools and machinery, chains, fasteners, railroad spikes and special coil steel at its Aços Villares and Piratini units in Brazil, at Corporación Sidenor units in Spain and at the MacSteel units in the United States.

In the United States, Gerdau Ameristeel produces special sections such as grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company's clients, which are mainly manufacturers.

It also supplies steel to its customers through its jointly controlled entity Kalyani Gerdau Steel Inc. located in India. It is a jointly controlled entity with the Kalyani Group in India in which Gerdau has an 80.6% stake in the jointly controlled entity.

Flat Products

The Company's Açominas mill produces slabs, which are rolled into flat products such as hot and cold steel coils, heavy plates and profiles. In addition, the Company's distribution subsidiary, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, adding further value through additional processing at its four flat steel service centers.

Gerdau Ameristeel also supplies flat steel to its customers through its jointly controlled entity Gallatin located in Kentucky. Gallatin is a jointly controlled entity with ArcelorMittal, Canada, a leading flat steel producer, and has nominal installed capacity of 1.4 million tonnes of flat steel per year. Both partners in the jointly controlled entity have a 50.0% stake.

Production Process

In Brazil, the Company has a decentralized production process, using both mini-mills and integrated facilities. In general, the Company has used the mini-mill model to produce steel products outside of Brazil.

Non-Integrated Process (Mini-Mills)

The Company operates 50 mini-mills worldwide (excluding jointly controlled entities and associate companies). Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. After loading the furnace with a preset mixture of raw material (i.e., steel scrap, pig iron and sponge iron), electric power is applied in accordance with a computer controlled melting profile. The Company's mini-mill production process generally consists of the following steps: obtaining raw material, melting, casting, rolling and drawing. The basic difference between this process and the integrated mill production process described below is in the first processing phase, i.e., the steelmaking process. Mini-mills are smaller plants than integrated facilities and the Company believes they provide certain advantages over integrated mills, including:

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- lower capital costs,
- lower operational risks due to the low concentration of capital and installed capacity in a single production plant,
- proximity of production facilities to raw-material sources,
- proximity to local markets and easier adjustment of production levels, and
- more effective managerial structure due to the relative simplicity of the production process.

Integrated Process

The Company operates 4 integrated mills, of which 3 are located in Brazil and 1 in Peru. The Açominas mill is the largest integrated facility the Company operates. Although it produces steel using a blast furnace, this mill has some of the advantages of a mini-mill since it is located very close to its main suppliers and the ports from which the Company exports most of its production.

The Company's steelmaking process in integrated facilities consists of four basic processes: raw material preparation, pig-iron production, steel production and production of crude steel (billets, blooms and slabs). In the primary stage of iron making, sinter (a mixture of iron ore and limestone), coke and other raw materials are consumed in the blast furnace to produce pig iron. Coke acts as both a fuel and a reducing agent in this process. The Company's blast furnaces have installed capacity of 5.9 million tonnes of liquid pig iron per year.

The pig iron produced by the blast furnace is transported by rail to the desulphurization unit to reduce the sulfur content in the steel. After the desulphurization process, the low-sulfur pig-iron is transformed into steel through LD-type oxygen converters. The LD steelmaking process utilizes molten pig iron to produce steel by blowing oxygen over the metallic charge inside the converters. The process does not require any external source of energy, which is fully supplied by the chemical reactions that occur between the oxygen and the molten pig iron impurities. The LD steelmaking process is presently the most widely used in the world.

Some mills further refine the LD converters' output with ladle furnaces. Liquid steel is then poured into ingot molds and allowed to solidify into ingots. The molds are stripped away and the ingots are transported by rail to the soaking pits, where they are heated to a uniform rolling temperature. The heated ingots are rolled in the primary rolling mill to produce slabs and blooms, some of which are rolled in the secondary rolling mills to produce blooms and billets. At this point in the process, the Company either sells a portion of the product to other manufacturers where the rolling process must take place in order to produce steel ready for final use, or the Company performs the rolling process itself, transforming the product into heavy structural shapes or wire rods.

Logistics

The Company sells its products through independent distributors, direct sales from the mills and its retail network called Comercial Gerdau.

Transportation costs are an important component of most steel mill businesses and represent a significant factor in maintaining competitive prices in the export market. The Company's mills are strategically located in various different geographic regions. The Company believes that the proximity of its mills to raw material sources and important consumer markets gives it a competitive advantage in serving customers and obtaining raw materials at competitive costs. This represents an important competitive advantage in inbound and outbound logistics.

To reduce logistic costs, Gerdau also uses different types of transportation modes (road, rail, sea and cabotage) to receive raw materials, and to deliver products to its customers or ports of destination. Accordingly, Gerdau has developed long-term relationships with logistic companies specialized in delivering raw materials and steel products.

In 1996 Gerdau acquired an interest in MRS Logística, one of the most important rail companies in Brazil, which operates connecting the states of São Paulo, Rio de Janeiro and Minas Gerais, which are Brazil's main economic centers, and also reaches the main ports of the country in this region. These shares provide the guarantee of using this mode to transport raw materials (scrap and pig iron) as well as final products. In North America, the Company owns a large number of rail cars for the same purpose.

Gerdau uses around 15 ports to deliver products from the entire Brazilian coastline. The majority of exports are shipped from Praia Mole Private Steel Terminal in Vitoria, Espírito Santo. Furthermore, this is Brazil's most efficient and productive seaport for handling steel products, with more than 20 years of expertise in this business.

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Gerdau also owns specialized terminals for iron ore deliveries that supply its steel units in the state of Bahia, Brazil and in Peru. Additionally, Gerdau is currently in progress with a project and construction of a new export terminal for coal in Colombia.

Competition

The steel market is divided into manufacturers of long steel products, flat steel products and special steel.

The Company operates in the long steel market, which is the most important market for Gerdau, by supplying to the following customer segments: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery, agricultural equipment, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural installations and reforestation projects. In North America, the Company also supplies customers with special sections, including elevator guide rails and super light beams. The Company also provides its customers with higher value-added products at rebar fabrication facilities.

The Company operates in the flat steel market through its Açominas mill that produces slabs, which are used to roll flat products such as hot and cold rolled steel coils, heavy plates and profiles. In addition, the Company's distribution subsidiary, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, adding further value through additional processing at its four flat steel service centers. Gerdau Ameristeel also supplies flat steel to its customers through its jointly controlled entity Gallatin. Gallatin is a jointly controlled entity with ArcelorMittal, a leading flat steel producer, and has nominal installed capacity of 1.4 million tonnes of flat steel per year.

The Company produces special and stainless steel used in tools and machinery, chains, fasteners, railroad spikes, special coil steel, grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company's customers at its special steel units in Brazil, United States, Spain and through its jointly controlled company in India.

Competitive Position Brazil

The Brazilian steel market is very competitive. In the year ended December 31, 2011, the Company was the largest Brazilian long steel producer and the second largest crude steel producer, according to the Brazilian Steel Institute (IABr - Instituto Aço Brasil). Meanwhile, ArcelorMittal Brasil was the second largest long steel producer and the first largest crude steel producer in Brazil during 2011.

The table below presents the Company's main competitors and market share in Brazil's crude steel market:

Brazilian crude steel producers (%)	Fiscal year ending December 31,		
	2011	2010	2009

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ArcelorMittal Brasil (1)	25.4	30.7	34.4
Gerdau (2)	25.0	24.8	23.4
Usiminas (3)	18.8	22.2	21.3
CSN	13.6	14.9	16.5
Others	17.2	7.4	4.4
Total	100.0	100.0	100.0

Source: IABr - Instituto Aço Brasil

- (1) Arcelor S.A. controls CST, Belgo and Acesita
- (2) Includes Aços Villares
- (3) Usiminas and Cosipa are part of the Usiminas Group

World common long rolled steel demand is met principally by steel mini-mills and, to a much lesser extent, by integrated steel producers. In the Brazilian market, no single company competes against the Company across its entire product range. The Company faced some competition from long steel products imports, mainly coming from Turkey throughout 2010, and with less extension in 2011. The Company believes that the diversification of its products, the solution developed by its fab shops units and the decentralization of its business provide a competitive edge over its major competitors.

In the domestic market, Gerdau is almost an exclusive supplier of blooms and billets to well-defined and loyal customers that have been purchasing from it regularly for over 15 years. Intense competition exists between the Company and ArcelorMittal in the slab and wire rod markets.

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Competitive Position Outside Brazil

In the international market, the Company, in its export markets, faces strong competition in the commercial quality products line from Eastern Europe (CIS). The main competitors in the high quality products segment are Europeans and, to a lesser extent, the Japanese. The Company is a strong player due to its vast experience and the high quality of its services and products. Gerdau has a highly diversified list of traditional customers located all over the world.

Outside Brazil, notably in North America, the Company's subsidiary Gerdau Ameristeel has increased its market share through acquisitions. Gerdau Ameristeel is the second largest mini-mill steel producer in North America and has progressively increased its share in the North American market, with annual nominal capacity of 9.9 million tonnes of crude steel and 9.2 million tonnes of rolled products.

Gerdau Ameristeel's geographic market encompasses primarily the United States and Canada. Gerdau Ameristeel faces substantial competition in the sale of each of its products from numerous competitors in its markets. Rebar, merchant bars and structural shapes are commodity steel products for which pricing is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is somewhat limited. Proximity of product inventories to customers, combined with competitive freight costs and low-cost manufacturing processes, are key to maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350-mile radius of the mini-mills and merchant bar deliveries are generally concentrated within a 500-mile radius. Some products produced by the Selkirk, Midlothian, Jacksonville, Jackson, Cartersville and Petersburg mini-mills are shipped greater distances, including overseas. Except in unusual circumstances, the customer's delivery expenses are limited to freight charges from the nearest competitive mill, and the supplier absorbs any incremental freight charges.

The Company's principal competitors include Commercial Metals Company, Nucor Corporation, Steel Dynamics Inc., and ArcelorMittal Inc. Gallatin Steel competes with numerous other integrated and mini-mill steel producers.

Despite the commodity characteristics of the rebar, merchant bar and structural markets, Gerdau Ameristeel believes it distinguishes itself from many of its competitors due to the Company's large product range, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. The Company believes it produces one of the largest ranges of bar products and shapes. The Company's product diversity is an important competitive advantage in a market where many customers are looking to fulfill their requirements from a few key suppliers.

In Latin America, each country has a specific competitive position that depends on conditions in their respective markets. Most compete domestically and face significant competition from imports. More than 75% of shipments from Gerdau's Latin American Operation originate from Chile, Peru, Colombia and Mexico. In Chile, the main barriers faced by Gerdau AZA sales are freight and transportation costs and the availability of imports. The Company estimates the share of the domestic long steel market held by Gerdau AZA at about 30% and their products are oriented to satisfy the constructions, mechanic, agriculture and mining market. It also believes that Diaco has a 30% stake in the Colombian steel market and that Siderperú has market share of approximately 36% in the long products segment in Peru.

Spain special steel operation holds approximately 10% of the special steel market in the European Union; USA special steel operation has roughly 20% share in the SBQ market; and in Brazil, Gerdau's special steel units are combined the biggest player in that market.

Business Cyclical and Seasonality

The steel industry is highly cyclical worldwide. Consequently, the Company is exposed to substantial swings in the demand for steel products which in turn causes volatility in the prices of most of its products. In addition, since the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the sector is dependent on export markets. The demand for steel products and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including general trends in the manufacturing, construction and automotive sectors. Since 2003, demand for steel products from developing countries (particularly China) and overall world economic growth have contributed to historically high levels in the prices of the Company's steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Since the end of 2009 and throughout 2010 and 2011, the world steel demand and prices have been improving if compared to the beginning of 2009 and the Company believes that this trend will continue throughout 2012. A material decrease in demand for steel or exports by countries not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company's operations and prospects.

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In the Company's Brazilian and Latin American operations, shipments in the second and third quarters of the year tend to be stronger than in the first and fourth quarters, given the reduction in construction activity. In the Company's North American operations, demand is influenced by winter conditions, when consumption of electricity and other energy sources (i.e., natural gas) for heating increases and may be exacerbated by adverse weather conditions, contributing to increased costs and decreased construction activity, and in turn leading to lower sales. In the Company's Special Steel Operations, particularly in Spain, the third quarter is traditionally marked by collective vacations that reduce operations in the quarter to only two months.

Information on the Extent of the Company's Dependence

In the case of a power outage, there are no alternative supply options available at most Gerdau mills due to the high volume and tension required for the operation of these plants. Some Gerdau small plants may choose, as an alternative, to use generators to compensate for the energy shortage. Moreover, the Açominas mill generates 70% of its power needs internally using gases generated in the steel-making process.

In case of a lack of natural gas, the equipment could be adjusted to use diesel and LPG.

The distribution of electric power and natural gas is a regulated monopoly in most countries, which leads the distributor to be the only supplier in each geographic region. In some countries, regulations allow for a choice of electrical power or natural gas commodity supplier, allowing Gerdau to diversify its supply agreement portfolio.

Production Inputs

Gerdau's production processes are based mainly on the mini-mill concept, with mills equipped with electric arc furnaces that can melt ferrous scrap and produce steel products at the required specifications. The main raw material used at these mills is ferrous scrap, which at some plants is blended with pig iron. The component proportions of this mixture may change in accordance with prices and availability in order to optimize raw material costs. Iron, iron ore (used in blast furnaces and in one Direct Reduction Iron - DRI plant) and ferroalloys are also important.

Although international ferrous scrap prices are determined by the U.S. domestic market (since the United States is the largest scrap exporter), the price of ferrous scrap in Brazil varies from region to region and is influenced by demand and transportation costs. Gerdau is the largest consumer of ferrous scrap in Brazil.

Brazil and Special Steel Business Operations - The Company's Brazilian mills use scrap and pig iron purchased from local suppliers. Due to the nature of the raw materials used in its processes, Gerdau has medium and long-term supply contracts with scrap generators and short-term contracts with some suppliers for its mini-mills in Brazil, acquiring scrap as necessary for the mills' needs. Scrap for the Brazilian Operation is priced in Brazilian reais, thus input prices are not directly affected by currency fluctuations.

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In the Açominas mill the main raw materials of this unit include: (i) coal imported from Canada, Australia and the United States, anthracite from Vietnam and the Ukraine and coke petroleum purchased from Petrobras; (ii) ferroalloys, of which 90.0% is purchased in the domestic market; and (iii) iron ore, which is partially produced from its own mines and partially supplied by large, medium, and small sized mining companies, most of them strategically located close to the plant. These three items accounted for about 45% of the total production costs of Açominas mill in 2011. Due to its size, the Açominas mill utilizes long-term contracts to guarantee raw material supplies.

North America Business Operation - The main metallic input used by the Company's mills in the United States is ferrous scrap. When ferrous scrap prices exceed acceptable levels, as occurred in 2004, the mills seek to modify input sources accordingly. Gerdau Ameristeel has consistently obtained adequate supplies of raw materials and is not dependent on a smaller number of suppliers.

Latin America Business Operation - The main metallic input used by the Company's mills in Latin America is ferrous scrap. The Latin American Operation is exposed to market fluctuations, varying its prices according to each local market.

Ferrous Scrap

There are two broad categories of ferrous scrap: (i) obsolete scrap which is steel from various sources, ranging from tin cans to car bodies and white goods; and (ii) industrial scrap, which is essentially factory steel bushings and flashings, steel turnings and even scrap generated by the Company's production processes themselves. In Brazil the use of scrap in electric arc furnaces varies between obsolete scrap and industrial scrap. The Special Steel plants use mainly industrial scrap.

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In 2011 Gerdau utilized more than 15 million tonnes of scrap, accounting for significant gains through increasingly competitive operating costs.

Brazil and Special Business Operations - The price of scrap in Brazil varies by region, depending upon local supply and demand, and transportation costs. The Southeast region is the most industrialized in the country, generating the highest volume of scrap. Due to the high concentration of players in this region, the competition is more intense.

The Company also has five shredders, including a mega-shredder at Gerdau Cosigua in Rio de Janeiro capable of processing shredded scrap in volumes that exceed 200 car bodies per hour.

At Gerdau Special Steel Europe, industrial scrap is the main type of raw material used in the Spanish operation.

North America Business Operation - Ferrous scrap is the primary raw material to this Business Operation. It is a commodity whose availability varies in accordance with the level of economic activity, seasonality, export levels, and price fluctuations. Twelve of Gerdau North America Business Operation mini-mills have on-site dedicated scrap processing facilities, including shredder operations that supply a significant portion of their scrap requirements. Given the fact that not all of the scrap it consumes is sourced from its own scrap yards, it buys residual requirements in the market either directly or through dealers that source and prepares scrap.

All of production facilities in North America are mini-mills, in which operating results are closely linked to the cost of ferrous scrap and scrap substitutes, the primary input of mini-mills. Ferrous scrap prices are relatively higher during winter months due to the impact of weather on collecting and supplying efforts. More than half of all steel products in North America are currently made in electric arc furnaces using ferrous scrap. Prices for ferrous scrap are subject to market forces largely beyond the Company's control, which include demand from U.S. and international steel producers, freight costs and speculation.

Latin America Business Operation - The price of scrap in the Latin America varies in accordance with demand, transportation costs and region.

Pig Iron and Sponge Iron

Brazil Business Operation - Brazil is an exporter of pig iron. Most Brazilian pig iron is produced in the state of Minas Gerais by a large number of small producers. Pig iron is a natural substitute for scrap, and in Brazil it is an important component of the metal mix used to make steel in the mills. In Brazil, the price of pig iron is related to internal and external demand and to the cost of charcoal, the most volatile cost item in pig iron production.

The Company does not have any Brazilian contracts for the supply of pig iron, negotiating amounts and delivery conditions directly with suppliers. The price of pig iron may fluctuate in line with its international market price, given that a large portion of production in Brazil is

exported.

North America Business Operation - Scrap availability is a major factor in Gerdau North America Business Operation. Sponge iron and pig iron can substitute a limited portion of the ferrous scrap used in electric arc furnace steel production. Gerdau Ameristeel does not utilize significant quantities of scrap substitutes in its mini-mills except for pig iron used for its chemical properties at the Beaumont facility, and to produce some special sections.

Iron Ore

Iron ore is the main input to produce steel at Gerdau's plants in Ouro Branco, Barão de Cocais, Contagem, Divinópolis, and Sete Lagoas located in Minas Gerais State, southeastern Brazil.

Iron ore is purchased in its natural form as lump ore, pellet feed or sinter feed, or agglomerated as pellets. Iron ore fines are agglomerated in the sinter plant and then loaded into the blast furnace, which produces pig iron, which is refined and turned into steel. Lump ore and pellets are directly loaded into the blast furnace to increase productivity. To produce 1.0 ton of pig iron requires about 1.6 tonnes of iron ore.

Iron ore consumption in Gerdau mills in Brazil amounted to 7.1 million tonnes in 2011, partially supplied by mining companies adjacent to the steel plants and partially supplied by Gerdau's mines.

Other Inputs

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau's operations use other inputs to produce steel such as ferroalloys, electrodes, furnace refracting materials, oxygen, nitrogen and other industrial gases and limestone,

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albeit in smaller amounts. All of these inputs are readily available in Brazil. Additional inputs associated with the production of pig iron are charcoal, which is used in blast furnace mills, and natural gas, which is used at the DRI unit.

Açominas mill's important raw materials and inputs also include solid fuels, comprising the Metallurgical Coal, used in the production of coke for blast furnace and also for the blast furnace pulverized injecting, this last one providing increase in productivity and consequently reduction in the final cost of pig iron. Besides the metallurgical coal, we use the anthracite, solid fuel used in the production of sinter. The gas resulting from the production of coke and pig iron are reused, inclusive for generating electricity to power the plant.

Gerdau has a metallurgical coke producer with annual capacity of 400,000 tonnes per year, and coking coal resources estimated at 20.0 million tonnes.

The North American operations also use additional inputs. Various domestic and foreign companies supply other important raw materials or operating supplies required for the business, including refractory materials, ferroalloys and carbon electrodes that are readily available in the open market. Gerdau North America Business Operation has obtained adequate quantities of these raw materials and supplies at competitive market prices. The Company is not dependent on any one supplier as a source for any particular material and believes there are adequate alternative suppliers available in the marketplace if the need to replace an existing one arises.

Energy Requirements

Steel production is a process that consumes large amounts of electricity, especially in electric arc mills. Electricity represents an important cost in the production process, along with natural gas, which is used in furnaces to re-heat billets in rolled steel production.

Dona Francisca Energética S.A. (DFESA) operates a hydroelectric power plant with nominal capacity of 125 MW located in Agudo, Rio Grande do Sul State (Brazil). Its corporate purpose is to operate, maintain and maximize use of the energy potential of the Dona Francisca Hydroelectric Plant. DFESA participates in a consortium (Consórcio Dona Francisca) with the state power utility Companhia Estadual de Energia Elétrica (CEEE). The shareholders of DFESA are Gerdau S.A. (51.8%), COPEL Participações S.A. (23.0%), Celesc (23.0%), and Desenvix (2.2%).

Caçu and Barra dos Coqueiros hydroelectric power plants, located in the state of Goiás (Brazil), with total installed capacity of 155MW and started its operations in 2010, with all power made available to the units located in Brazil's Southeast.

Gerdau also holds the concession to operate the São João Cachoeirinha Hydroelectric Plant Complex located in Paraná state. The complex will have total installed capacity of 105 MW. The start of construction is currently awaiting the granting of the environmental licenses.

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The terms of the aforementioned generation concession agreements are for 35 years as of the signature of the agreement. As such: UHE Dona Francisca expires in 2033 and UHEs Caçu and Barra dos Coqueiros and UHEs São João - Cachoeirinha expire in 2037.

The Company is currently analyzing power generation alternatives in all countries where it operates.

In Brazil, the Company's units hold long-term contracts with electricity suppliers and do not depend on a single contract. Energy is currently supplied to the Company's industrial units under two types of contracts:

- Contracts in the Regulated Contractual Environment in which the Company is a Captive Consumer are used at the following units: Piratini, Vila Guafra, Água Funda, Usiba, Açonorte and Sorocaba. These involve state-owned companies or holders of government concessions. In these contracts, prices are defined by the National Electric Power Agency (ANEEL).
- Contracts in the Free Market Environment in which Gerdau is a Free Consumer are used at the following units: São Paulo, Cosigua, Cearense, Açominas, Divinópolis, Barão de Cocais, Riograndense, Araucária, São José dos Campos, Pindamonhangaba and Mogi das Cruzes. These units have power purchase agreements contracted directly with power generation companies and/or energy traders, with prices defined and adjusted according to rules predetermined by the parties. The transmission and distribution rates are regulated by ANEEL and revised annually. Açominas mill generates approximately 70.0% of its energy needs internally, using gases generated by the steelmaking process. This keeps its exposure to the energy market significantly lower than in the case of mini-mills.

The supply of natural gas to all Brazilian units is regulated and performed under long-term contracts. The Barão de Cocais and Divinópolis units do not have access to natural gas supplies.

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In Spain the new energy contract will start in January 2012, remaining until December 2012. For the first quarter the energy will be acquired for fixed values. For other months the price of energy is related to the spot market, with the option of fixing the price by Gerdau. The natural gas contract also lasts until December 2012.

In North America, there are two types of energy markets: regulated and deregulated. In the regulated market, agreements are established with local electric power concession holds and the rates are determined for each region. In the deregulated market, the price of power can change every 5 minutes (spot price) to reflect the actual cost of electricity generation. Although the deregulation of both the natural gas and wholesale electricity markets may create opportunities to reduce costs as a result of market competition, the prices of both these forms of energy have recently become more volatile and may remain so.

In Colombia, the electricity agreements were renewed in 2009 and are valid until 2014. The natural gas agreements were renewed in 2011 and are valid until 2013.

In Chile, Gerdau AZA renegotiated its electricity agreement until 2014. It was signed a new agreement for the supply of natural gas from the second half of 2009 based on imports of liquefied natural gas (LNG) to a lower prices compared to alternative fuels.

In Uruguay, electricity is purchased under long-term agreements. Natural gas is purchased from Montevideo Gas and the prices are set by the Argentinean export tariffs.

In Peru electricity is purchased under a long-term agreement. The plant has no access to natural gas supply due to its location, although since late 2011 has been consuming CNG (Compressed Natural Gas) for part of their needs.

Argentina utilizes natural gas (LPG as a substitute) and Uruguay also uses natural gas (Fuel Oil as substitute). In 2008, Gerdau Sipar signed a contract with Petrobrás to supply the new plant's power requirements up to May 2010. In view of the postponement of this project, this contract was renegotiated. The natural gas supply contract expires in May 2012.

A new power purchase agreement in the Dominican Republic was closed in 2009 with a 5-year term. Beginning in 2011, the unit will receive LNG (liquefied natural gas) thru ships and trucks.

In Mexico, electricity is purchased under a long-term agreement. In these agreements, the demand and consumption are negotiated between the parties, and the tariffs are set by the state company CFE (Compañía Federal de Electricidad). The natural gas agreements have the duration of 5 years.

Technology and Quality Management

All Gerdau mills have excellent quality management supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma, a set of statistical methods for improving the assessment of process variables, as well as Quality Function Deployment, a methodology through which technicians can identify the full range of customer requirements.

Given this level of quality management, 45 mills are ISO 9001 or ISO TS 16949 certified. In general, production, technical services and quality teams are responsible for developing new products to meet customer and market needs.

The Company uses a quality management system developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the Company's high standards of quality. The Company's technical specialists make planned visits, some may be randomly selected and some are scheduled visits, to its customers to check on the quality of the products delivered by the Company in order to guarantee the final user satisfaction for products purchased indirectly.

Knowledge Management Portal is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

Due to the specialized nature of its business, the Company's special steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment the Company uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the

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equipment. The Company has technology transfer agreements with Nippon Steel, Kyoei Steel, Thyssen, Daido Steel and BSW.

As is common with mini-mill steelmakers, the Company usually acquires technology in the market rather than developing new technology through intensive research and development, since steelmaking technology is readily available for purchase.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business. See item Information on the Extent of the Company's Dependence for further details.

Sales Terms and Credit Policy

The Company's Brazilian sales are usually made on a 21/28-day settlement CIF (Cost, Insurance and Freight) basis. Comercial Gerdau, the retail arm of Gerdau in Brazil, sells on a 29-day settlement basis, mainly CIF. Brazilian customers are subject to a credit approval process. The concession of credit limits is controlled by a corporate-level system (SAP R/3) that can be accessed by all sales channels. The credit and collection department is responsible for evaluating, determining and monitoring credit in accordance with the credit limit policy. This policy includes the active participation of staff from the various sales channels. At Comercial Gerdau, in particular, the criteria for retail sales also include practices such as the use of credit card services. Açominas mill exports are guaranteed via letters of credit and/or pre-payment before the product is shipped. Exports to Gerdau's subsidiaries may be sold on credit at market interest rates.

Gerdau North American credit terms to customers are generally based on customary market conditions and practices. The Company's North American business is seasonal, with orders in the second and third quarters tending to be stronger than those in the first and fourth quarters, primarily due to weather-related slowdowns in the construction industry.

The Company's Special Steel Operation in Spain has a Risk Committee that is responsible for analyzing customer credit. The United States and Brazil Special Steel Operations have their own credit departments for customer's credit analyses.

As a result of these policies, the Company's provision for doubtful accounts has been at low levels. On December 31, 2011, provision for doubtful accounts was 1.7% based on gross account receivables as per Note 5 to the Consolidated Financial Statements, on December 31, 2010 was 2.1% and on December 31, 2009 this provision was 3.1% of gross account receivables. The 2009 level was an exception due to the international economic crisis during the year. Gerdau has improved its credit approval controls and enhanced the reliability of its sales process through the use of risk indicators and internal controls.

Insurance

The Company maintains insurance coverage in amounts that it believes suitable to cover the main risks of its operating activities. The Company has hired insurance for its Açominas mill against operating losses, which covers amounts up to approximately US\$ 4.6 billion (R\$ 7,3 billion as of April 30, 2011), including material damage to installations (US\$ 3.3 billion) and losses of gross revenues (US\$ 1.3 billion), such as halts in production due to business interruptions caused by accidents for a period up to twelve months. The Company's current insurance policy relating to the Açominas mill remains effective until April 30, 2012. The Company's mini-mills are covered against operational losses under its policy.

Trade Investigations and Government Protectionism

Over the past several years, exports of steel products from various companies and countries, including Brazil, have been subject to antidumping, countervailing duties and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies' ability to access such import markets. Until now, however, these investigations have not had a significant impact on the Company's export volumes.

Mine Operating License

In Brazil, the Company's mining operations are subject to government concessions, and its mining activities are subject to the limitations imposed by Brazil's Federal Constitution and Mining Code and the laws, rules and regulations enacted pertaining to mining activities. Under the concession contracts, the Company was granted permission to commercially operate the mines located at Miguel Burnier, Várzea do Lopes, Dom Bosco and Gongo Soco in the state of Minas Gerais Brazil, for as long as the reserves last. Brazil's Mining Code and Federal Constitution impose on companies that conduct mining activities, such as us, requirements concerning, among other things, the manner in which

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mineral deposits are used, worker health and safety, environmental protection and restoration, the prevention of pollution and the health and safety of the local communities where the mines are located.

In Colombia there are some mining operations, which concessions are governed by the Government and ruled by regulations contained in the Mining Code (Law 685 of 2001 and Law 1382 of 2010). Under the concession rights given to the Company, exploration and exploitation projects of coking coal can be developed. The mines are located at Tausa, Cundinamarca; Cucunubá, Cundinamarca; Samacá and Ráquira, Boyacá; and Cúcuta, north of Santander. The period of the concessions is 30 years and it can be extended for an additional 30 years. Environmental requirements are also part of the rules that have to be fulfilled in order to develop the projects, in addition to issues relating the payment of royalties and the priority security of the personnel (mining).

Material Effects of Government Regulation

In addition to the government regulations that apply to its industry in general, the Company is not subject to any specific regulations that materially and adversely affect its business.

C. ORGANIZATIONAL STRUCTURE

The Company's operational structure (including its main operating subsidiaries engaged in steel production) was as follows on December 31, 2011:

The table below shows the main consolidated companies and the investments controlled directly or indirectly by Gerdau on December 31, 2011, 2010 and 2009:

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Consolidated company	Country	Equity Interests					
		Total capital (*)		Equity Interests		Voting capital	
		2011	2010	2009	2011	2010	2009
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Steel North America Inc.	Canada	100.00	100.00	66.32	100.00	100.00	66.32
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	100.00	66.32	100.00	100.00	66.32
Gerdau Açominas S.A.	Brazil	93.98	93.98	93.98	93.99	93.99	93.98
Gerdau Aços Longos S.A. and subsidiary (2)	Brazil	93.96	93.96	93.96	93.97	93.97	93.97
Gerdau Steel Inc.	Canada	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiary (3)	USA	100.00	100.00	100.00	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (4)	Brazil	82.56	75.88	95.20	82.56	75.88	95.20
Corporación Sidenor S.A. and subsidiaries (5)	Spain	60.00	60.00	60.00	60.00	60.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	94.22	94.22	94.22	94.22
Axol S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Chile Inversiones Ltda. and subsidiaries (6)	Chile	99.99	99.99	100.00	99.99	99.99	100.00
Gerdau Aços Especiais S.A.	Brazil	95.94	94.35	94.35	95.95	94.36	94.35
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (7)	Hungary	98.98	98.84	98.75	98.98	98.84	98.75
Gerdau Comercial de Aços S.A.	Brazil	95.59	95.58	95.58	95.59	95.59	95.59
Aramac S.A.	Uruguay	100.00	100.00	100.00	100.00	100.00	100.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	86.66	86.66	86.66	86.66	88.66	86.66
Diacó S.A. and subsidiaries (8)	Colombia	99.57	99.36	99.34	99.57	99.36	99.34
Gerdau GTL México, S.A. de C.V. and subsidiaries (9)	Mexico	100.00	100.00	100.00	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.73	97.06	97.06	100.00	99.73	99.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	100.00	100.00	100.00	100.00
Sipar Gerdau Inversiones S.A.	Argentina	99.99	92.75	92.75	99.99	92.75	92.75
Sipar Aceros S.A. and subsidiary (10)	Argentina	99.96	99.96	99.63	99.96	99.96	99.63
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.32	98.29	98.32	98.32	98.29
Cleary Holdings Corp.	Colombia	100.00	100.00	50.90	100.00	100.00	50.90
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00	100.00	100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00	100.00		100.00	100.00	
Gerdau Trade II Inc.	Cayman Islands	100.00	100.00		100.00	100.00	
Maco Holdings Ltda. (11)	Brazil			100.00			100.00
GTL Financial Corp. (12)	Netherlands			100.00			100.00
Aços Villares S.A. (13)	Brazil			58.50			58.50

(*) The equity interests reported represent the ownership percentage directly and indirectly held by the investor in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

(4) Fixed-income investment fund managed by JP Morgan.

(5) Subsidiaries: Sidenor Industrial S.L., Sidenor y Cia, Sociedad Colectiva, Sidenor I+D S.A., Forjanor S.L., Corporación Sidenor S.A. y Cía., Sidenor Calibrados S.L.

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(6) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda. e Trefilados Bonati S.A., Cerney Holdings Ltd., Indac Colômbia S.A..

(7) Subsidiaries: LuxFin Participation S.L. and Bogey Holding Company Spain S.L..

(8) Subsidiaries: Ferrer Ind. Corporation and Laminados Andinos S.A.

(9) Subsidiaries: Siderúrgica Tultitlán, S.A.de C.V., Sidertul S.A. de C.V., Arrendadora Valle de México, S.A. de C.V. e GTL Servicios Administrativos México, S.A. de C.V.

(10) Subsidiary: Siderco S.A.

(11) The subsidiary Maco Holdings Ltd started to be presented as an associate Company, as described in note 3.3.

(12) The subsidiary GTL Financial Corp. was closed in 2010.

(13) The subsidiary Aços Villares S.A. was merged into Gerdau S.A.

The Company's investments in Gallatin, Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial y Comercial Limitada in Chile, in which the Company owns a 50% stake, the investments in Industrias Nacionales (INCA) in the Dominican Republic through Multisteel Business Holdings, in which Gerdau has a 49% stake, the investments in Corporación Centroamericana del Acero S.A. in the Guatemala, in which Gerdau has a 30% stake, the investment in Corsa Controladora, S.A. de C.V. in Mexico, in which Gerdau has a 49% stake, the investment in Kalyani Gerdau Steel Ltd., in which Gerdau has a stake of approximately 81% and the investment in Dona Francisca Energética S.A. in Brazil, in which the Company holds a 52% stake are accounted in the Company's financial statements using the equity method (for further information see Note 3 Consolidated Financial Statements).

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The operating companies that are fully consolidated or accounted according to the equity method in the financial statements of Gerdau S.A. are described below:

Gerdau Aços Longos S.A. - This company produces common long steel and has 10 mills distributed throughout Brazil and annual installed capacity of 4.6 million tonnes of crude steel.

Gerdau Comercial de Aços S.A. - This company sells general steel products and has 82 steel distribution centers located throughout Brazil.

Gerdau Açominas S.A. - Açominas owns the mill located in the state of Minas Gerais, Brazil. The Açominas mill is Gerdau's largest unit, with annual installed capacity of 4.5 million tonnes of crude steel, accounting for 49.5% of Gerdau's crude steel output in the Brazil Business Operation.

Gerdau Ameristeel Corporation - Gerdau Ameristeel has annual capacity of 9.9 million tonnes of crude steel and 9.2 million tonnes of rolled products. The Company is one of the largest producers of long steel in North America. Gerdau Ameristeel subsidiaries are Gerdau USA Inc., Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel and, Chaparral Steel Company. Gerdau Ameristeel also has a 50% interest in the jointly controlled entity Gallatin in the United States.

Gerdau Aços Especiais S.A. - This company is headquartered in Charqueadas in the Brazilian state of Rio Grande do Sul and has consolidated annual installed capacity of 430,000 tonnes of crude steel and 470,000 tonnes of rolled products.

Corporación Sidenor S.A. - Sidenor, with operations in Spain, produces special steel and has crude steel annual capacity of 980,000 tonnes. As a result of the option to purchase an additional 40% interest described at note 15.f. to the Consolidated Financial Statements, the Company recognizes 100% as its interest in Corporación Sidenor, instead of the 60% described in the table above.

Gerdau MacSteel Holdings Inc. - MacSteel is one of the largest producers of special steel (Special Bar Quality - SBQ) in the United States. It operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also has six downstream operations and annual installed capacity of 1.4 million tonnes of crude steel and 1.2 million tonnes of rolled steel.

Gerdau Laisa S.A. - In 1980, the Company acquired the Laisa mini-mill in Uruguay. Gerdau Laisa is the one of largest long steel producers in Uruguay and has annual installed capacity of 100,000 tonnes of crude steel and 80,000 tonnes of rolled products.

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Gerdau Chile Inversiones Ltda. - The company has two units in Chile with combined annual production capacity of 490,000 tonnes of crude steel and 470,000 tonnes of rolled steel. Gerdau AZA also sells its products through Aceros Cox.

Sipar Gerdau Inversiones S.A. - Sipar, through its operational subsidiary Sipar Aceros S.A., entered the Argentinean market in December 1997 and has annual installed capacity of 240,000 tonnes of rolled products.

Diaco S.A. - Diaco is one of the largest producers of steel and rebar in Colombia and has annual installed capacity of 550,000 tonnes of crude steel and 640,000 tonnes of rolled products.

Empresa Siderúrgica del Perú S.A.A. - Acquired in 2006, Siderperú is a long and flat steel producer with annual installed capacity of 650,000 tonnes of crude steel and 960,000 tonnes of rolled steel. Siderperú operates one blast furnace, a direct reduction unit and a melt shop with two electric arc furnaces (EAF), two LD converters and six rolling mills.

Gerdau GTL México, S.A. de C.V. - The latter company is a long steel producer located in the metropolitan area of Mexico City with annual installed capacity of 500,000 tonnes of crude steel and 430,000 tonnes of rolled products.

Sizuca - Siderúrgica Zuliana, C. A. - In June 2007, Gerdau acquired Sizuca - Siderúrgica Zuliana located in Ciudad Ojeda, Venezuela. Sizuca owns a mini-mill that produces concrete reinforcement bars. Sizuca has annual installed capacity of 300,000 tonnes of crude steel and 200,000 tonnes of rolled products.

Corsa Controladora, S.A. de C.V. - In 2008, the Company acquired a 49% stake in Corsa Controladora, S.A. de C.V. (Mexico). Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors. Located in the metropolitan area of Mexico City, Corsa is a mini-mill that produces long steel (light merchant bars) and has annual installed capacity of 160,000 tonnes of crude steel and 250,000 tonnes of rolled products.

Multisteel Business Holdings - In 2007, the Company signed a strategic alliance with the shareholders of Multisteel Business Holdings Corp., a holding company headquartered in Santo Domingo, Dominican Republic. The Company has a 49% stake in the capital stock of the holding company Multisteel Business Holdings Corp., which holds 99% of the capital stock of Industrias Nacionales (INCA), a long steel rolling mill company with annual shipments of almost 300,000 tonnes of steel products.

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Corporación Centroamericana del Acero S.A. - Strategic partnership entered into with *Corporación Centroamericana del Acero S.A.*, assuming a 30.0% stake in the capital of this company, which has installed capacity of 430,000 tonnes of crude steel and 570,000 tonnes of rolled steel. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize.

Kalyani Gerdau Steel Ltd. - Jointly controlled entity with the Kalyani Group for the operation of a steel mill in Tadipatri, located in the southern part of Andhra Pradesh state in India. Gerdau and the Kalyani Group have a joint control over this entity and Gerdau has approximately 80.6% in the Company's capital stock. The Kalyani Group has veto powers established by the jointly controlled entity agreement which establishes joint control even in this case of Gerdau having an interest over 50%. The crude steel capacity of this unit is approximately 250,000 tonnes.

Seiva S.A. - Florestas e Indústrias - A reforestation company created in 1971, Seiva has pinus and eucalyptus forests used by the pulp and paper industries.

Cleary Holdings Corp. - Cleary Holdings Corp controls a metallurgical coke producer and coking coal reserves in Colombia. The Company has estimated coking coal resources of 20 million tonnes and annual coke production capacity of 400,000 tonnes.

D. PROPERTY, PLANT AND EQUIPMENT**Facilities**

Gerdau's principal properties are for the production of steel, rolled products and drawn products. The following is a list of the locations, capacities and types of installation, as well as the types of products manufactured at December 31, 2011:

PLANTS	LOCATION		INSTALLED CAPACITY (1,000 tonnes)			EQUIPMENT	PRODUCTS
	COUNTRY	STATE	PIG IRON/ SPONGE IRON	CRUDE STEEL	ROLLED PRODUCTS		
BRAZIL OPERATION			5,490	9,100	5,320		
Açonorte	Brazil	PE		260	240	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
Água Funda	Brazil	SP			100	Rolling Mill	Rebar, merchant bars
Barão de Cocais	Brazil	MG	330	330	200	Integrated/blast furnace, LD	Rebar, merchant bars

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Cearense	Brazil	CE		200	160	converter and rolling mill	EAF mini-mill, rolling mill	Rebar, merchant bars
Cosigua	Brazil	RJ		930	1,350	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
Divinópolis	Brazil	MG	430	580	520	Integrated/blast furnace, EOF converter and rolling mill	Integrated/blast furnace, EOF converter and rolling mill	Rebar, merchant bars
Guaíra	Brazil	PR		540	170	EAF mini-mill, rolling mill	EAF mini-mill, rolling mill	Billet, rebar, merchant bars
Riograndense	Brazil	RS		450	500	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products, nails
Usiba	Brazil	BA		490	400	Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod, drawn products
São Paulo	Brazil	SP		820	610	EAF mini-mill, rolling mill	EAF mini-mill, rolling mill	Billets, rebars
Contagem	Brazil	MG	240			Blast furnace	Blast furnace	Pig iron
Sete Lagoas	Brazil	MG	130			Blast furnace	Blast furnace	Pig iron
Açominas	Brazil	MG	4,360	4,500	1,070	Integrated with blast furnace and rolling mill	Integrated with blast furnace and rolling mill	Billets, blooms, slabs, wire rod, heavy structural shapes

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NORTH AMERICAN OPERATION			9,860	9,220		
Beaumont	USA	TX	590	730	EAF mini-mill, rolling mill	Quality rod products
Calverty City	USA	KY		300	Rolling Mill	Merchant bars, medium structural channel and beams
Cambridge	Canada	ON	330	290	EAF mini-mill, rolling mill	Rebar, merchant bars, special bar quality (SBQ)
Cartersville	USA	GA	840	580	EAF mini-mill, rolling mill	Merchant bars, structural shapes, beams
Charlotte	USA	NC	370	330	EAF mini-mill, rolling mill	Rebar, merchant bars
Jackson	USA	TN	610	540	EAF mini-mill, rolling mill	Rebar, merchant bars
Jacksonville	USA	FL	730	620	EAF mini-mill, rolling mill	Rebar, merchant bars
Joliet	USA	IL		70	Rolling mill	Merchant bars, medium structural channel and beams
Knoxville	USA	TN	520	470	EAF mini-mill, rolling mill	Rebar
Manitoba - MRM	Canada	MB	430	360	EAF mini-mill, rolling mill	Special sections, merchant bars, rebar
Perth Amboy	USA	NJ			Rolling mill	Merchant bars, medium structural channel and beams
Sand Springs	USA	OK			EAF mini-mill, rolling mill	Merchant bar, rebar, railway products
Sayreville	USA	NJ	730	600	EAF mini-mill, rolling mill	Rebar
St. Paul	USA	MN	520	420	EAF mini-mill, rolling mill	Rebar, merchant bars, special bar quality round bars
Whitby	Canada	ON	900	730	EAF mini-mill, rolling mill	Structural shapes, rebar, merchant bars
Wilton	USA	IA	320	320	EAF mini-mill, rolling mill	Rebar, merchant bars
Midlothian	USA	TX	1,500	1,400	EAF mini-mill, rolling mill	Rebar, merchant bars
Petersburg	USA	VA	1,000	1,000	EAF mini-mill, rolling mill	Rebar, merchant bars
Tamco	USA	CA	470	460	EAF mini-mill, rolling mill	Rebar
LATIN AMERICAN OPERATION			400	2,590	3,030	

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AZA	Chile		490	470	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, nails, wire and mesh.
Laisa	Uruguay		100	80	EAF mini-mill, rolling mill	Rebar, merchant bars
Diacó	Colombia		550	650	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod
Sipar	Argentina			240	Rolling mill	Rebar, merchant bars
Siderperú	Peru	400	650	960	Blast Furnace, EAF mini-mill, rolling mill	Rebar, merchant bars
Sizuca	Venezuela		300	200	EAF mini-mill	Rebar, merchant bars
Sidertul	Mexico		500	430	EAF mini-mill, rolling mill	Rebar, merchant bars
SPECIAL STEEL OPERATION			3,760	3,690		
Pindamonhangaba	Brazil	SP	620	690	EAF mini-mill, rolling mill	Bars, special profiles, wires, wire rod, finished and rolled bar, rolling mill rolls.
Mogi das Cruzes	Brazil	SP	375	200	EAF mini-mill, rolling mill	Bars, special profiles, wires, wire rod, finished and rolled bar
Sorocaba	Brazil	SP		20	Rolling mill	Bars, special profiles, finished and rolled bar
Piratini	Brazil	RS	430	470	EAF mini-mill, rolling mill	Bars, special profiles, wires, wire rod, finished and rolled bar
Basauri	Spain	-	740	380	EAF mini-mill, rolling mill	Bars, special profiles, finished and rolled bar
Reinosa	Spain	-	240	160	EAF mini-mill, rolling mill	Finished and rolled bar, and forged pieces and rolling mill rolls.
Azkoitia	Spain	-		330	Rolling mill	Bars, special profiles, finished and rolled bar
Vitória	Spain	-		200	Rolling mill	Bars, special profiles, finished and rolled bar
Fort Smith	USA	AR	530	490	EAF mini-mill, rolling mill	Finished and rolled bar, special profiles
Jackson	USA	MI	300	280	EAF mini-mill, rolling mill	Finished and rolled bar, special profiles
Monroe	USA	MI	520	470	EAF mini-mill, rolling mill	Finished and rolled bar, special profiles
GERDAU TOTAL			5,890	25,310	21,260	

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While electric arc furnace (EAF) mills produce crude steel from raw materials such as steel scrap or pig iron, a mill with a blast furnace or direct reduction iron (DRI) produces pig iron or sponge iron for use in the production of crude steel, with iron ore and natural gas being the main raw materials.

Mining Assets

Although the Company is primarily focused on the steel business, it owns mineral assets in order to have its own sources of minerals by acquiring land and mining rights. The iron ore mines are located in Miguel Burnier, Várzea do Lopes, Dom Bosco and Gongo Soco near the Açominas mill in the state of Minas Gerais, Brazil. The coal mines are located in Tausa, Cucunubá, Samacá, Ráquira and Cúcuta, Colombia. The use of these mineral resources as an input for our integrated mill (Açominas) should contribute to the long term competitiveness of this unit.

Investment Programs

In fiscal year 2011, capital expenditure on fixed assets was R\$ 1,961.4 million. Of this total, 70.3% was allocated to Brazil Business Operation units and the remaining 29.7% was allocated to the other business operations.

Brazil Business Operation a total of R\$ 1,378.6 million was invested in this operation for capital expenditure. A major part of this investment was for the installation of heavy plates and hot-rolled coil rolling mills at the Açominas mill. The Company also invested for the development and installation of new downstream units. Moreover, in the beginning of 2011, the Company completed the expansion of the structural profile rolling mill at the Açominas mill.

North America Business Operation this business operation spent R\$ 171.1 million, for capital expenditure on fixed assets equally distributed throughout the units which compose this business operation.

Latin America Business Operation in 2011, the Latin American units spent R\$ 200.3 million, for capital expenditure on fixed assets distributed among the countries in which the units from this business operation are located, with material portion destined to the development of the port facility in Colombia.

Special Steel Business Operation the special steel units spent R\$ 211.4 million in 2011, for capital expenditure on maintenance and technological upgrade equally distributed throughout the units which compose this business operation.

The investments in fixed assets planned for the period from 2012 to 2016 are estimated at R\$ 10.3 billion, and include both strategic and maintenance investments (see table below).

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Investment Plan	Main Projects	Location	Additional rolling capacity (1,000 tonnes)	Start-up
Brazil Business Operation				
	Flat steel rolling mill (heavy plates and coiled hot-rolled strips) at Açominas mill-MG	Brazil	1,900	2012/2013
	Expansion of mining capacity to 7 million tonnes	Brazil		2012
	Rebar fabricating and ready-to-use steel product units	Brazil		2013
	Wire rod and rebar rolling mill in Cosigua mill-RJ(1),(2)	Brazil	600	2013
North America Business Operation				
	Reheating furnace at Calvert City, Kentucky	USA		2012
	Increase in crude steel capacity at Midlothian mill, Texas	USA	200	2014
	Increase in rolling capacity at Midlothian mill, Texas	USA	100	2014
Latin America Business Operation				
	Port facilities (for coal and coke shipments)	Colombia		2012
	Rolling expansion at Tuta and Tocancipá mills	Colombia	80	2012
	Rebar and light commercial profile tolling in Guatemala(3)	Guatemala	200	2012/2013
Special Steel Business Operation				
	New continuous slab casting unit with production capacity increase at Monroe mill, Michigan	USA	200	2012
	Expansion of crude steel, long steel products and finishing capacities (at 2 different mills)(2)	USA	300	2014
	Special steel and rebar rolling mill, sintering, coke plant and power generation(3)	India	300	2012/2013
	Special steel rolling mill at Pindamonhangaba mill, São Paulo	Brazil	500	2012
	New continuous casting and reheating furnace at Pindamonhangaba mill, São Paulo	Brazil		2013
	Expansion of rolling capacity at Mogi das Cruzes mill, São Paulo	Brazil	60	2012

(1) To meet this rolling capacity, one of the electric furnaces in the melt shop will be revamped.

(2) Investment with approval in stages.

(3) This capacity is not included in the consolidated figures since it is a jointly-controlled entity.

Environmental Issues

Gerdaul S.A is currently in compliance with government environmental regulations. The Company believes that there are no environmental issues that could affect the use of its fixed assets.

In 2011, Gerdaul S.A. invested R\$ 370.1 million in the improvement of its eco-efficiency practices and in technologies for the protection of the air, water and soil.

Environmental Regulation

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. Its manufacturing facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of its environmental programs and uses outside experts where needed. The Company works to assure that its operations maintain compliance in all material respects with the applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants, it conducts an assessment of potential environmental issues and prepares a work plan in compliance with the local authorities.

The steel production process generates air and water emissions, as well as solid wastes, which may pose environmental hazards. The principal potential hazardous waste generated by current and past operations is electric arc furnace dust, a byproduct from the production of steel in electric arc furnaces. Gerdau installs baghouse filter systems in all facilities where it produces steel, which assures high levels of efficiency in terms of dust filtration and retention. The costs with collecting and disposing of electric arc furnace dust are expensed as operating costs when incurred. Environmental legislation and regulations at both the federal and state levels concerning electric arc furnace dust in any jurisdiction is subject to potential changes, which could increase the cost of compliance. The Company believes the electric arc furnace dust generated by its current production processes is being collected, handled and disposed of in a manner that in all material respects meets all current federal, state and local environmental regulations.

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In most countries, both federal and state governments have the power to enact environmental protection laws and issue regulations under such laws. In addition to those rules, the Company is also subject to municipal environmental laws and regulations. Under such laws, individuals or legal entities whose conduct or activities cause harm to the environment are usually subject to criminal and administrative sanctions, as well as any costs to repair the actual damages resulting from such harm. Individuals or legal entities that commit environmental crimes usually are subject to penalties and sanctions that for individuals range from fines to imprisonment, and for legal entities include suspending or interrupting operations and prohibiting entering into any contracts with government agencies.

Government environmental protection agencies usually may also impose administrative sanctions on individuals and entities that fail to comply with environmental laws and regulations that include:

- fines;

- partial or total suspension of operations;

- obligations to provide compensation for recovery works and environmental projects;

- forfeiture of or restrictions on tax incentives and benefits;

- closing of establishments or enterprises; and

- forfeiture or suspension of participation in credit lines with official credit agencies.

In 2006, the subsidiaries in Brazil evaluated seven of their operational sites regarding potential environmental impacts caused by past operations. The Company concluded that its past operations may have caused environmental damage, mainly due to the use and disposal of hazardous substances, and that it may be required in the future by authorities to remedy these environmental damages. Based on assumptions of the extent of the potential damage caused and on the time of the remedial process, the Company has made estimates to determine the amounts involved in data collection, analysis and determination of the actual environmental impact in the areas potentially impacted by its operations. These estimates amount to US\$ 25.9 million and were recorded under Environmental Liabilities. Those amounts may vary in the future, depending on the development of research and the conclusion of the environmental impact studies. In December 31, 2011 the updated present value of the total remaining amount of Brazilian Environment Liabilities was estimated at R\$ 20.1 million. Some of these areas have already been recovered and some areas are still being evaluated.

Gerdau Ameristeel and Macsteel estimated clean-up costs based on a review of the anticipated remedial activities to be undertaken at each of their respective known contaminated sites. Although the ultimate costs associated with such remedies are not precisely known, the Company has estimated the present value of the total remaining costs as of December 31, 2011 at approximately R\$ 68.4 million, with these costs recorded as a liability in its financial statements in Note 20 Environmental Liabilities.

Gerdau has industrial facilities holding ISO 14001 certification in many countries, of which 17 units are in Brazil; 1 in Chile; 3 in Colombia; 1 in Uruguay, 1 in Argentina; 19 in North America and 5 in Spain.

Brazilian Environmental Legislation

The Company's activities are subject to wide-sweeping Brazilian environmental legislation at the federal, state and municipal levels that govern, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, as well as the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

Brazilian environmental legislation provides for the imposition of criminal and administrative penalties on natural persons and legal entities that commit environmental crimes or infractions, as well as for the obligation to repair the environmental damage caused. Although the Company has never suffered any environmental penalties that could have a relevant impact on its business, potential environmental crimes or infractions could subject the Company to penalties that include:

- fines that at the administrative level could reach as high as R\$50 million, depending on the violator's economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;
- suspension of or interference in the activities of the respective enterprise; and
- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

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In addition, strict liability is applicable to environmental crimes for both natural persons and legal entities. Environmental legislation also provides for disregarding the legal status of a company's controlling shareholder whenever such status represents an impediment to receiving restitution for environmental damages.

In the civil sphere, environmental damage results in joint and several liability as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in its operations to perform such services as final disposal of solid waste does not exempt the Company from liability for any environmental damage that may occur.

North American Environmental Legislation

The Company is required to comply with a complex and evolving body of Environmental, Health and Safety Laws (EHS Laws) concerning, among other things, air emissions, discharges to soil, surface water and groundwater, noise control, the generation, handling, storage, transportation and disposal of toxic and hazardous substances and waste, the clean-up of contamination, indoor air quality and worker health and safety. These EHS Laws vary by location and can fall within federal, provincial, state or municipal jurisdictions.

Most EHS Laws are of general application but result in significant obligations in practice for the steel sector. For example, the Company is required to comply with a variety of EHS Laws that restrict emissions of air pollutants, such as lead, particulate matter and mercury. Because the Company's manufacturing facilities emit significant quantities of air emissions, compliance with these laws does require the Company to make investments in pollution control equipment and to report to the relevant government authority if any air emissions limits are exceeded. The government authorities typically monitor compliance with these limits and use a variety of tools to enforce them, including administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EHS Laws; and regulatory prosecutions, which can result in significant fines and (in rare cases) imprisonment. The Company is also required to comply with a similar regime with respect to its wastewater. EHS Laws restrict the type and amount of pollutants that Company facilities can discharge into receiving bodies of waters, such as rivers, lakes and oceans, and into municipal sanitary and storm sewers. Government authorities can enforce these restrictions using the same variety of tools noted above. The Company has installed pollution control equipment at its manufacturing facilities to address these emissions and discharge limits, and has an environmental management system in place designed to reduce the risk of non-compliance.

Environmental Permits

According to Brazilian environmental legislation, the proper functioning of activities considered effectively or potentially polluting or that in some way could cause environmental damage requires environmental licenses. This procedure is necessary for both the activity's initial installation and operating phases as well as for its expansion phases, and these licenses must be renewed periodically.

The Brazilian Institute for the Environment and Renewable Resources (IBAMA) has jurisdiction to issue licenses for projects with national or regional environmental impacts. In all other cases, the state environmental agencies have jurisdiction and, in the case of local impact, the municipal agencies have jurisdiction.

Environmental licensing of activities with significant environmental impacts is subject to a Prior Environmental Impact Study and respective Environmental Impact Report (EIA/RIMA), as well as the implementation of measures to mitigate and compensate for the environmental impact of the project. In the case of compensatory measures, the environmental legislation imposes on the project's owner the obligation to set aside funds equivalent to at most 0.5% of the total estimated cost of installing the project to implement and maintain conservation units.

The environmental licensing process includes the issuance of three licenses: Pre-License (LP), Installation License (LI) and Operational License (LO). These licenses are issued in accordance with each phase of project implementation, and maintaining their validity requires compliance with the requirements established by the environmental licensing agency. The failure to obtain an environmental license, regardless of whether or not the activity is actually harming the environment, is considered an environmental crime and an administrative infraction, subjecting the violator to administrative fines, at the federal level (subject to being doubled or tripled in the case of repeat violations), and the suspension of operations. The Operational License (LO) must be renewed periodically.

The Company's operations currently comply with all legal requirements related to environmental licenses. However, any delay or refusal on the part of environmental licensing agencies to issue or renew these licenses, as well as any difficulty on its part to meet the requirements established by these environmental agencies during the course of the environmental licensing process, could jeopardize or even impair the installation, operation and expansion of new and current projects.

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Areas of permanent forest preservation and legal reserves

Some of the Company's activities, mainly those involving reforestation related to the production of the firewood used in its industrial units, are subject to the Brazilian Forestry Code.

The Brazilian Forestry Code determines that certain areas, because of their importance for preserving the environment and water resources, be considered permanent preservation areas (APP). These include areas adjacent to rivers or natural or artificial reservoirs, and hilltops and hillside properties with an incline steeper than 45°. Suppression of the vegetation in these areas may only occur in cases of public need or social interest, provided previous authorization is obtained from the appropriate environmental agencies.

In addition, the Brazilian Forestry Code requires rural property owners to restore and preserve from 20% to 80% of areas containing native forests, depending on the region where the property is located. On properties where the extent of native forest does not meet the minimum percentage of legal forest reserves, Executive Order 2166-67/2001 mandates the gradual reforestation of at least one-tenth (1/10) of the area necessary to complete the legal percentage of forest reserve every three years until the percentage required for that location is achieved.

Executive Order 2166-67/2001 also establishes alternative methods for restoring legal forest reserve areas, which may be adopted successively or cumulatively. These alternative methods constitute compensatory measures, such as: the adoption of a condominium system consisting of more than one property; compensation using another area situated within the same micro basin or hydrographic basin in the state; the leasing of an area under the public forest system with right-of-way; or the acquisition of interests in forest reserve areas created specifically for this purpose.

ITEM 4A. UNRESOLVED SEC STAFF COMMENTS

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission with respect to its periodic reports under the Securities Exchange Act.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2011, 2010 and 2009 included in this Annual Report that have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of Gerdau".

The following discussion contains forward-looking statements that are based on management's current expectations, estimates and projections and that involve risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections "Forward-Looking Statements" and "Risk Factors".

The primary factors affecting the Company's operating results include:

- Economic and political conditions in the countries in which Gerdau operates, specially Brazil and U.S.;
- The fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;
- The cyclical nature of supply and demand for steel products both inside and outside of Brazil, including the prices for steel products;
- The Company's level of exports; and
- The Company's production costs.

Brazilian Economic Conditions

The Company's results and financial position depend largely on the situation of the Brazilian economy, notably economic growth and its impact on steel demand, financing costs, the availability of financing and the exchange rates between Brazilian and foreign currencies.

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Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, the inflation-targeting system, the adoption of a floating foreign exchange rate, the increase in foreign investment and compliance with international financial agreements, including the full repayment of debt with the International Monetary Fund, contributed to the improved economic conditions in Brazil.

In 2009, Brazilian GDP slightly fell by 0.6% remaining at \$1.6 trillion, with a trade surplus of \$25 billion. Inflation, as measured by the IPCA index, stood at 4.3%. The average CDI rate in the year was 9.9%. The Brazilian *real* appreciated by 25.5% against the U.S. dollar, ending the year at R\$1.74 to \$1.00.

In 2010, Brazilian GDP grew by 7.5% to \$2.1 trillion, with a trade surplus of \$20 billion. Inflation, as measured by the IPCA index, was 5.9%. The average CDI rate in the year was 10.6%. On December 31, 2010, the U.S. dollar/Brazilian *real* foreign exchange rate was R\$1.67/\$1.00.

In 2011, Brazilian GDP grew by 3.8% to \$2.5 trillion. Inflation, measured by the IPCA index, was 6.5% and the average CDI rate in the year was 10.9%. On December 31, 2011 the U.S. dollar/Brazilian *real* foreign exchange rate was R\$1.88/\$1.00.

Inflation affects Gerdaus financial performance by increasing operating expenses denominated in Brazilian *reais*. A significant portion of its costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate.

Moreover, a significant portion of the Company's debt denominated in Brazilian *reais* is subject to interest at the CDI and TJLP rates, which are affected for many factors including inflation in Brazil. Another portion of the Company's debt, denominated in Brazilian *reais*, is indexed to general-inflation indexes, generally the IGP-M index. Therefore, higher inflation may result in increases in the Company's financial expenses and debt service obligations.

The interest rates that the Company pays depend on a variety of factors such as; movements on the interest rates, which can be driven by inflation; ratings given by the credit rating agencies that assess the Company; as well as the Company's debt securities that are traded in the secondary market, as bonds. The Company's debt obligations with floating interest rates, exposes the Company to market risks from changes in the CDI rate, IGP-M index and LIBOR. To reduce its exposure to interest rate risk, the Company seeks from time to time to enter into hedging arrangements to mitigate fluctuations in these rates, such as LIBOR.

The table below presents GDP growth, inflation, interest rates and the foreign exchange rate between the U.S. dollar and the Brazilian *real* for the periods shown.

	2011	2010	2009
Actual GDP growth	3.8%	7.5%	(0.6)%
Inflation (IGP-M) (1)	5.1%	11.3%	(1.7)%
Inflation (IPCA) (2)	6.5%	5.9%	4.3%
CDI rate (3)	10.8%	10.6%	9.9%

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6-month LIBOR		0.8%	6.4%	0.4%
Depreciation (appreciation) in the Brazilian <i>real</i> against the U.S. dollar		12.6%	(4.3)%	(25.5)%
Foreign exchange rate at end of period	\$1.00	R\$1.8758	R\$1.6662	R\$1.7412
Average foreign exchange rate	\$1.00 (4)	R\$1.6751	R\$1.7601	R\$1.9977

Sources: Getúlio Vargas Foundation, Central Bank of Brazil and Bloomberg

- (1) Inflation as measured by the General Market Price index (IGP-M) published by the Getúlio Vargas Foundation (FGV).
- (2) Inflation as measured by the Broad Consumer Price Index (IPCA) measured by Brazilian Institute of Geography and Statistics (IBGE).
- (3) The CDI rate is equivalent to the average fixed rate of interbank deposits recorded during the day in Brazil (annualized monthly cumulative figure at end of period).
- (4) Average of the foreign exchange rates, according to the Brazilian Central Bank, on the last day of each month in the period indicated.

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In view of the size of the Company's operations in the United States, U.S. economic conditions have a significant effect on the Company's results, particularly with regard to U.S. economic growth and the related effects on steel demand, financing costs and the availability of credit.

In the United States, Real GDP began to fall in the third quarter of 2008 (down 2.7% annualized) before falling at a 5.4% annual rate in the fourth quarter of 2008 as uncertainty and tight credit conditions led companies to preserve cash, leading to a drawdown in inventories throughout the supply chain. Inventory reduction continued on a much wider scale in the first quarter of 2009, accounting for about one-half of the estimated 6.4% drop in annualized Real GDP. The second quarter of 2009 saw demand begin to stabilize, with Real GDP falling at a 0.7% pace as domestic demand and inventories bottomed out. Supported by the Cash for Clunkers program, which drove a sharp rise in auto sales, and first-time homebuyer incentives, which supported improved housing starts, Real GDP in the United States grew by 5.7% in the fourth quarter of 2009, as re-stocking of inventories outweighed the continued negative impact of rising unemployment on consumption. During 2010 and 2011, the United States economy kept showing a gradual recovery, with an increase in the demand for steel products. The improvements in the automotive sector and in the manufacturing industry were the drivers of the recovery in demand. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, remained above 50, indicating growth. The infrastructure and non-residential segments continue to present stable demand.

In 2009, according to IMF (International Monetary Fund) the U.S. Real GDP decreased by 2.6% (\$14.1 trillion Nominal GDP), with a trade deficit of \$378.4 billion. Deflation, as measured by the CPI, was 0.3%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.2%.

In 2010, U.S. Real GDP grew by 2.6% (\$14.6 trillion Nominal GDP), with a trade deficit of \$466.5 billion, according to the International Monetary Fund (IMF). Inflation in 2010 measured by the CPI was 1.6%. The average Fed Funds rate was 0.2%.

In 2011, U.S. Real GDP 1.5% (\$15.1 trillion Nominal GDP), with a trade deficit of \$467.6 billion, according to the International Monetary Fund (IMF). Inflation, measured by the CPI was 3.0%. The average Fed Funds rate was 0.1%.

The table below presents actual U.S. Real GDP growth, inflation and interest rates for the periods indicated.

	2011	2010	2009
Actual Real GDP growth (1)	1.5%	2.6%	(2.6)%
Inflation (CPI) (2)	3.0%	1.6%	(0.3)%
Fed Funds (3)	0.1%	0.2%	0.2%

Sources: International Monetary Fund and Federal Reserve Statistical Release

(1) Real GDP growth (annual percent change) published by the International Monetary Fund (IMF).

(2) Consumer price index, average of consumer prices (annual percent change) published by the International Monetary Fund (IMF). The CPI is a survey of consumer prices for all urban consumers.

(3) Fed Funds corresponds to the interest rate set by the U.S. Federal Reserve.

Impact of Inflation and Fluctuations in Exchange Rates

Gerdau's results and its financial position are largely dependent on the state of the Brazilian economy, notably (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) the rates of exchange between the Brazilian *real* and foreign currencies.

For many years, Brazil experienced high inflation rates that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Since the introduction of the Brazilian *real* in July 1994, the inflation rate in Brazil has decreased dramatically. Following the implementation of the Real Plan, Brazilian GDP has accelerated, growing by 2.7% in 2002, contracting by 1.1% in 2003, and growing by 5.7% in 2004, 3.2% in 2005, 4.0% in 2006, 6.1% in 2007, 5.1% in 2008, decreasing 0.6% in 2009 and growing by 7.5% in 2010 and 3.8% in 2011.

A portion of Gerdau's trade accounts receivable, trade accounts payable and debt is denominated in currencies other than the respective functional currencies of each subsidiary. The functional currency of the Brazilian operating subsidiaries is the Brazilian *real*. Brazilian subsidiaries have some of their assets and liabilities denominated in foreign currencies, mainly the U.S. dollar.

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The foreign exchange effect on translation of foreign subsidiaries is recorded directly in shareholders equity. Foreign exchange gains and losses on transactions, including the exchange gains and losses on some non-*real* denominated debt of the subsidiaries in Brazil are recognized in the statement of income. However, foreign exchange gains and losses designated as the hedged instrument of investment in foreign subsidiaries is also recognized directly in shareholders equity. The operations of Gerdau in Brazil have both liabilities and assets denominated in foreign currency, with the amount of assets exceeds the amount of liabilities. The effect of the valuation of the Brazilian *real* versus other currencies (mainly the U.S. dollar) has a net positive effect in our shareholders equity.

The cyclical nature of supply and demand for steel products including the prices of steel products

The prices of steel products are generally sensitive to changes in world and local demand, which in turn are affected by economic conditions in the world and in the specific country. The prices of steel products are also linked to available installed capacity. Most of the Company's long rolled steel products, including rebars, merchant bars and common wire rods, are classified as commodities. However, a significant portion of the Company's long rolled products, such as special steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, with all of these factors affecting prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, annual world crude steel production volume has varied from between approximately 850 million tonnes and 1.500 million tonnes. According to the worldsteel, world crude steel production in 2011 was 1,527 million tonnes, 6.8% higher than in 2010, a reflection of the recovery in the world economy increasing the demand for steel products. China continued to increase its crude steel production by 10.5% in 2011, mainly due to massive public spending on infrastructure projects. According to worldsteel, world demand for finished steel products increased by 6.5% in 2011 and should grow 5.4% in 2012.

International steel prices increased around 42.4% over the last five years (2007-2011), due to stronger demand from China, which has led steelmakers to invest in new projects to expand installed capacity. On the other hand international steel prices have experienced ups and downs throughout the period from the fourth quarter of 2007 and through the fourth quarter of 2009, when the average price per tonne of CIS export billet at Black Sea/Baltic Sea was \$512 in the fourth quarter of 2007, skyrocketing to \$1,205 in June 2008, slumping to \$295 in March 2009 and reaching \$415 at the end of 2009. This swing in the steel price was mainly caused by the turmoil in the world economy and the surplus supply of steel products in a scenario of lower demand in the period. During 2010 and 2011 the prices recovered, increasing by 41.6% when compared to 2009, reaching \$588 in the end of 2011.

The average price per tonne of the CIS export billet at the Black Sea/Baltic Sea is used as a reference for the international price, and it is possible to see its evolution in the chart below:

Average Price of CIS Export Billet at Black Sea/Baltic Sea (\$ per Tonne)

Source: Metal Bulletin and Bloomberg

Export levels - during periods of lower domestic demand for the Company's products, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of higher domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand. In the past three years, we exported products from Brazil to customers in other continents

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with whom we have long-established commercial relations. In 2011, exports were 3.8% higher when compared to 2010, reaching 2.0 million tonnes, which represented 28% of all sales by our Brazilian units, in 2010 exports represented 29% of total sales from Brazil operations. Export revenue totaled R\$ 2.3 billion in the year (excluding revenue from shipments to subsidiaries and affiliated companies).

Production costs - raw materials account for the highest percentage of the Company's production costs. Metallic inputs, that includes scrap, pig iron, iron ore, coke and metallic alloys, represented in 2011 approximately 54.2% of production costs, while Energy and Reducing Agents, that represents cost with coal, electricity, oxygen, natural gas and fuel oil, accounted for 13.5%. Personnel totaled 14.3% of production costs and Specific Materials that includes refractories, electrodes, rolling cylinders, rollers, guides, carburants and lime sum 7.6% of total production costs. The chart below presents the costs breakdown:

Production Costs Breakdown in 2011

Significant events affecting financial performance during 2011

Capital increase - On April 18, 2011, the Company concluded a public offering, with net proceeds in the amount of R\$ 3.6 billion. Of this figure, R\$ 2.1 billion were used for the prepayment of loans contracted by the Company's subsidiaries in North America, which led to a reduction in the financial expenses, and the remaining amount was incorporated to corporate funds, resulting in higher financial income. Based on such event, the net debt index on EBITDA went from 2.4x in December 31, 2010 to 2.0x by the end of 2011.

Exchange rate - In 2010, the foreign exchange variation between the US dollar and the *real* in the period (an appreciation of the *real* against US dollar of 4.3%), resulted the positive amount of R\$ 104.4 million. On the other hand, in 2011, pursuant to IFRS standards, the Company assigned most of the debts in foreign currency acquired by companies in Brazil as hedge for a portion of investments in subsidiaries abroad. As a

result, the effects from foreign currency variations on such debts are recognized as shareholders' equity, mitigating the impact on the Company's financial result in 2011. Thus, even with the depreciation of the real against US dollar of 12.6% in 2011, the foreign exchange variation recorded a positive amount of R\$ 51.8 million.

Operating Results

The following presentation of the Company's operating results for the years ended December 31, 2011, 2010 and 2009 is based on the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) included in this Annual Report. References to increases or decreases in any year or period are made in relation to the corresponding prior year or period, except where stated otherwise.

The table below presents information for various income statements items and expressed as a percentage of net sales for each of the respective years:

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	2011		For the year ended December 31, 2010		2009		Variation 2011 / 2010	Variation 2010 / 2009
	R\$ million	% net sales	R\$ million	% net sales	R\$ million	% net sales		
Net sales	35,407	100.0%	31,393	100.0%	26,540	100.0%	12.8%	18.3%
Cost of Sales	(30,298)	(85.6)%	(25,873)	(82.4)%	(22,305)	(84.0)%	17.1%	16.0%
Gross profit	5,109	14.4%	5,520	17.6%	4,235	16.0%	(7.4)%	30.4%
Operating expenses:								
Selling and marketing expenses	(604)	(1.7)%	(552)	(1.8)%	(429)	(1.6)%	9.5%	28.7%
General and administrative expenses	(1,798)	(5.1)%	(1,806)	(5.8)%	(1,714)	(6.5)%	(0.4)%	5.3%
Reversal of impairment of assets.			336	1.1%	(1,223)	(4.6)%		
Other operating income	195	0.6%	207	0.7%	190	0.7%	(5.9)%	9.0%
Other operating expenses	(86)	(0.2)%	(101)	(0.3)%	(102)	(0.4)%	(14.8)%	(1.0)%
Equity in earnings of unconsolidated companies	63	0.2%	39	0.1%	(109)	(0.4)%	61.5%	
Net Income Before Financial Income (Expenses) and Taxes	2,879	8.1%	3,645	11.6%	847	3.2%	(21.0)%	330.3%
Financial income	456	1.3%	296	0.9%	436	1.6%	54.1%	(32.1)%
Financial expenses	(970)	(2.7)%	(1,098)	(3.5)%	(1,286)	(4.8)%	(11.6)%	(14.7)%
Exchange variations	52	0.1%	104	0.3%	1,061	4.0%	(50.0)%	(90.2)%
Gains and losses on derivatives, net	(65)	(0.2)%	12	(0.0)%	(26)	(0.1)%		
Income taxes	(253)	(0.7)%	(502)	(1.6)%	(27)	(0.1)%	(49.6)%	1,759.3%
Net income	2,098	5.9%	2,457	7.8%	1,005	3.8%	(14.6)%	144.6%

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010*Net Sales*

Net Sales by Business Operations(*) (R\$ million)	Year ended	Year ended	Variaton
	December 31, 2011	December 31, 2010	Year ended December 31, 2011/ Year ended December 31, 2010
Brazil	13,532	13,013	4.0%
North America	10,811	8,836	22.4%
Latin America	4,383	3,487	25.7%
Special Steel	7,516	6,611	13.7%
Intercompany Eliminations	(835)	(554)	50.7%
Total	35,407	31,393	12.8%

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(*) The information above does not include data from jointly controlled entities and associate companies.

Net Sales per tonne by Business Operations(*) (R\$/tonne)	Year ended December 31, 2011	Year ended December 31, 2010	Variaton Year ended December 31, 2011/ Year ended December 31, 2010
Brazil	1,915	1,958	-2.2%
North America	1,656	1,539	7.6%
Latin America	1,660	1,577	5.3%
Special Steel	2,565	2,392	7.2%
Total	1,848	1,808	2.2%

(*) The information above does not include data from jointly controlled entities and associate companies.

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In 2011, consolidated net sales increased by 12.8% compared to 2010, due to higher shipments (10.4% increase) and higher net sales per ton sold (2.2% increase). Consolidated shipments in 2011 increased throughout all business operations, especially in the North America Business Operation.

Increased net sales in the North America Business Operation have been due to the 13.7% increase in shipments, and 7.6% increase in net sales per ton - from R\$ 1,539 in 2010 to R\$ 1,656 in 2011. The manufacturing industry has been the main driver of the shipments recovery in this business operation. The Institute for Supply Management (ISM), the main industrial production indicator in the USA, remained above 50 for the last 2 years, indicating growth. In addition, the number of unemployment benefits applications significantly decreased throughout 2011, which strongly indicates an increase in steel consumption in the region. In light of the stronger demand in the manufacturing industry, the Company has been expanding its exposure to this consumer market, having increased exposure to this market, going from 20% of shipments in previous years to more than 30% in 2011.

Net sales for the Brazil Business Operation have increased slightly in 2011 due to higher shipments (+6.3%). On the other hand, net sales per ton sold have negatively impacted net sales, having decreased by 2.2% - from R\$ 1,958 in 2010 to R\$ 1,915 in 2011. This decrease reflects the discounts given to clients in the domestic market during the fourth quarter of 2010 to ensure competitiveness against long steel imports to Brazil. These new levels of net sales per ton sold have not increased significantly in 2011. In the Brazil Business Operation, the civil construction industry, which accounts for 50% to 55% of this Business Operation's sales, has played an important role in maintaining this demand. According to Sinduscon, the civil construction industry's GDP is expected to grow by 5% in 2012, which indicates a strong demand in this industry in the Brazilian market. For more details, please see Trend Information.

Net sales for the Special Steel Business Operation have increased driven by the growth in shipments (+6.0%) and the increased net sales per ton sold (+7.2%). In this business operation, the shipments sold in the Spanish (+17.8%) and United States (+6.1%) operations have been noteworthy. The shipments increase was a result of the recovery in the automotive industry in 2011, whose production of commercial vehicles increased by 9.6% in the U.S.A., and the number of commercial vehicle registrations increased by 9.9% in the European Union. The automotive industry is the main consumer market of this Business Operation, and it is expected to maintain its momentum in 2012, based on the forecasts of automotive associations in Brazil and in the United States. For more details, please see Trend Information.

In the Latin America Business Operation, the 25.7% growth in net sales was mostly due to increased shipments (+19.4%), noteworthy being the civil construction market in the operations in Colombia, Argentina and Chile. Net sales per ton sold have also contributed to increased net sales, going from R\$ 1,577 in 2010 to R\$ 1,660 in 2011. According to Worldsteel, Latin American countries are expected to experience a 5% growth in steel consumption in 2012, which indicates ongoing strong demand for this business operation.

Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)		Year ended December 31,		Variation Year ended December 31, 2011/ Year ended December 31, 2010
		2011	2010	
Brazil	Net sales (R\$million)	13,532	13,013	4.0%
	Cost of Sales (R\$million)	(11,274)	(10,179)	10.8%

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	Gross Profit (R\$million)	2,258	2,834	-20.3%
	<i>Gross margin (%)</i>	<i>16.7%</i>	<i>21.8%</i>	
North America	Net sales (R\$million)	10,811	8,836	22.4%
	Cost of Sales (R\$million)	(9682)	(7,998)	21.1%
	Gross Profit (R\$million)	1,129	838	34.7%
	<i>Gross margin (%)</i>	<i>10.4%</i>	<i>9.5%</i>	
Latin America	Net sales (R\$million)	4,383	3,487	25.7%
	Cost of Sales (R\$million)	(3,821)	(3,021)	26.5%
	Gross Profit (R\$million)	562	466	20.6%
	<i>Gross margin (%)</i>	<i>12.8%</i>	<i>13.4%</i>	
Special Steel	Net sales (R\$million)	7,516	6,611	13.7%
	Cost of Sales (R\$million)	(6,371)	(5,312)	19.9%
	Gross Profit (R\$million)	1,145	1,299	-11.9%
	<i>Gross margin (%)</i>	<i>15.2%</i>	<i>19.6%</i>	
Intercompany Eliminations	Net sales (R\$million)	(835)	(554)	50.7%
	Cost of Sales (R\$million)	850	637	33.4%
	Gross Profit (R\$million)	15	83	-81.9%
Total	Net sales (R\$million)	35,407	31,393	12.8%
	Cost of Sales (R\$million)	(30,298)	(25,873)	17.1%
	Gross Profit (R\$million)	5,109	5,520	-7.4%
	<i>Gross margin (%)</i>	<i>14.4%</i>	<i>17.6%</i>	

(*) The information above does not include data from jointly controlled entities and associate companies.

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On a consolidated basis, the cost of sales increase in 2011 when compared to 2010 is a result of the increase in shipments during the period, as well as the higher prices of raw materials, particularly metal inputs, which represented 48.8% of the cost of sales in 2010 and increased to 50.0% in 2011 (increase of R\$ 2,523 million). The greater increase in raw material costs compared to the growth in net sales per ton sold derived from the decreased gross margin, particularly in the Brazil and Special Steel Business Operations.

The Brazil Business Operation presented a decrease in net sales per ton sold in 2011, mainly due to discounts provided in the local market during the second semester of 2010, which affected the 2011 gross margin, compared to the previous year. Additionally, the gross margin was also affected by the increase in raw material costs.

In the Special Steel Business Operation, raw material costs exceeded the increase in net sales per ton sold, which explains the five percentage point reduction in the gross margin.

In the North America and Latin America Business Operations, the cost of sales followed the net sales, which maintained the gross margin in similar levels on the comparison between 2011 and 2010.

Selling, General and Administrative Expenses

Operating Expenses(*) (R\$ million)	2011	2010	Variation Year ended December 31, 2011/ Year ended December 31, 2010
Selling expenses	604	552	9.4%
General and administrative expenses	1,798	1,806	-0.4%
Total	2,402	2,358	1.9%
Net sales	35,407	31,393	12.8%
% of net sales	6.8%	7.5%	

(*) The information above does not include data from jointly controlled entities and associate companies.

In 2011, in line with the increase of shipments, selling expenses increased by 9.4% when compared to 2010. On the other hand, general and administrative expenses stayed in the same level, even with the higher operational activity level, due to the Company's efforts to reduce costs. Therefore, selling, general and administrative expenses as a percentage of the net sales decreased in the comparison periods, going from 7.5% in 2010 to 6.8% in 2011.

Reversal of Impairment (Impairment) of Assets and Restructuring Costs

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In accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), Gerdau's assets undergo impairment testing based on revisions of the prospects for cash generation and the future earnings from the Company's operations.

In 2010, due to the more favorable market conditions observed at the Special Steel Business Operations, especially in the United States, the impairment testing of assets identified net gains of R\$ 336 million in the period (R\$ 208 million net of income tax), composed of the following effects: in the United States, there was a reversal of losses due to the impairment of intangible assets in the amount of R\$ 216 million, and of fixed assets in the amount of R\$ 188 million; in Spain, the lack of prospects for a recovery in these operations led to loss due to impairment of fixed assets at one of its units in the amount of R\$ 68 million.

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In 2011, impairment tests indicated no gains or losses due to impairment of the Company's assets.

Equity in Earnings of Unconsolidated Companies

Jointly-controlled entities and associate companies, whose results are assessed by equity accounting, traded 1.1 million tons of steel in 2011, considering their respective equity interests, aligned with the shipments in the previous year, resulting in net sales of R\$ 1.7 billion, a 16% increase compared to 2010. Based on such companies' performance, equity accounting was positive by R\$ 63 million in 2011, compared to a positive R\$ 39 million in 2010.

Income before Financial Income (Expenses) and Taxes

The Net Income before Financial Results and Taxes decreased from R\$ 3,644.6 in the fiscal year ended on December 31, 2010 to R\$ 2,879.0 million in 2011, as explained in the "Cost of Sale and Gross Income" item.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses in Derivatives, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R\$ million)	2011	2010	Variaton Year ended December 31, 2011/ Year ended December 31, 2010
Financial income	456	296	54.1%
Financial expenses	(971)	(1,098)	-11.6%
Exchange variation, net	52	104	-50.0%
Gains and Losses on derivatives, net	(65)	13	
Total	(528)	(685)	-22.9%

(*) The information above does not include data from jointly controlled entities and associate companies.

In 2011, financial income and expenses were positively affected by the public offering concluded on April 18, 2011. Part of the resources obtained from the offering was used in the prepayment of debts, which reduced financial expenses (negative R\$ 1,097.6 million in 2010 compared to also negative R\$ 970.5 million in 2011), and the remaining balance was held in cash, resulting in higher financial income (R\$ 295.6 million in 2010 and R\$ 455.8 in 2011). Prepayment generated a loss of R\$ 68.7 million, recorded under gains (losses) with financial instruments due to the anticipated settlement of interest rate swaps associated to such debt.

Pursuant to IFRS standards, the Company assigned most of the debts in foreign currency acquired by companies in Brazil as hedge for a portion of investments in subsidiaries abroad. As a result, the effects from foreign currency variations on such debts are recognized as shareholders

equity, mitigating the impact on the Company's financial result in 2011. In 2010, a significant portion of the debt was still not assigned as hedge and, therefore, its exchange variation had a bigger impact in the financial result.

Income and Social Contribution Taxes

Provisions for income tax amounted to R\$ 253.1 million in 2011 compared to R\$ 501.9 million in 2010. This variation was mostly due to decreased financial results in the period in comparison with the same period of the previous year, as well as tax benefits due to interests paid on capital stock in the 2011 financial year.

Net Income

Consolidated net income was reduced in 2011 by 14.6% compared to 2010, mainly due to the decrease in operating results. It is important to mention that consolidated net income in 2010 had a loss reversal due to non-recoverability of assets totaling R\$ 336.3 million (R\$ 208.0 million, net of taxes).

At the Brazil Business Operation net income was R\$ 989.4 million in 2011, 16.5 % lower than in 2010, mainly due to the weaker operational result.

In 2011 the North America Business Operation had net income of R\$ 470.5 million compared to a net income of R\$ 147.6 million in 2010, a consequence of better operational results in 2011 and the lower financial expenses related to the payment of the term loan (R\$ 2,058.2).

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In 2011 the Latin America Business Operation had net income of R\$ 160.9 million, 28.7% lower than in 2010, a consequence of higher financial expenses due to an increase in the debt level in some countries in this business operation.

The Special Steel Business Operation had net income of R\$ 496.3 million compared to net income of R\$ 886.1 million in 2010, a consequence of a lower financial revenue due to pay down of loans from affiliates.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009*Net Sales*

Net Sales by Business Operations(*) (R\$ million)	Year ended December 31, 2010	Year ended December 31, 2009	Variaton Year ended December 31, 2010/ Year ended December 31, 2009
Brazil	13,013	10,596	22.8%
North America	8,836	8,294	6.5%
Latin America	3,487	3,137	11.2%
Special Steel	6,611	4,777	38.4%
Intercompany Eliminations	(554)	(264)	109.8%
Total	31,393	26,540	18.3%

(*) The information above does not include data from jointly controlled entities and associate companies.

Net Sales per tonne by Business Operations(*) (R\$/tonne)	Year ended December 31, 2010	Year ended December 31, 2009	Variaton Year ended December 31, 2010/ Year ended December 31, 2009
Brazil	1,958	2,048	-4.4%
North America	1,539	1,681	-8.4%
Latin America	1,577	1,557	1.3%
Special Steel	2,392	2,566	-6.8%
Total	1,808	1,897	-4.7%

(*) The information above does not include data from jointly controlled entities and associate companies.

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In 2010, consolidated net sales increased 18.3% in relation to 2009 (see table above), driven by the increased shipments (+24%), despite the lower net sales per tonne sold (-4.7%). In 2010, consolidated shipments grew in all business operations, especially in those operations with greater exposure to the Brazilian market and to the auto industry.

In absolute figures, the Brazil Business Operation was the highlight of net sales growth in 2010, supported by the increased shipments (+28.4%), especially in the Brazilian market (+29.2%). This growth in shipments compensated the reduction of 6.1% in net sales per tonne, from R\$ 1,997 in 2009 to R\$ 1,875, driven by price discounts granted to customers in the domestic market during the fourth quarter of 2010, in order to be more competitive, when the appreciation of the Real stimulated imports of long steel products to Brazil. In the Brazil Business Operation, the manufacturing industry, which represents from 40 to 45% of these Business Operation shipments, played an important role in the recovery in demand, fueled by the 21% growth in capital goods production in 2010, according to the Brazilian Institute of Geography and Statistics (IBGE). In the Brazilian market, demand remains robust in the construction industry, as confirmed by the growth of 11.6% in Construction GDP forecast for 2010, according to Sinduscon, an industry trade union. Construction represents from 50% to 55% of the Brazilian Business Operation shipments. Considering the consistent GDP growth forecasted for Brazil and the future events coming on stream like Olympic Games and World Cup, the industry and construction segments should continue in a sustainable level. For further details, see Trend Information .

The Special Steel Business Operation also posted significant growth in net sales, led by the shipments growth (+ 48.4%) at its operations in Brazil (+ 45.2%) and the United States (+64.0%). This growth in shipments compensated

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the reduction of 6.8% in net sales per tonne, from R\$ 2,566 in 2009 to R\$ 2,392 in 2010, mainly in Brazil and Spain. In the Special Steel Business Operation, the highlights in shipments were the operations in Brazil and the United States, which benefitted from the strong recovery in the auto industry, with vehicle production growing 14% in Brazil and 36% in the United States. The automotive industry is the main consumer market of this Business Operation and should continue in a good pace for the rest of 2011, taking in consideration the forecast from the automobile associations in Brazil and USA. For further details, see Trend Information .

The North America Business Operation posted growth in net sales, led by the shipments growth of 16.4% partially offset by the reduction of 8.4% in the net sales per tonne, from R\$ 1,681 in 2009 to R\$ 1,539 in 2010 due to the devaluation of the US dollar against the real in the period. In the North America Business Operation, the manufacturing industry was also the main driver of the recovery in shipments. The Institute for Supply Management (ISM), the main indicator of industrial production in North America, reached 58.5 in December 2010, with a reading above 50 indicating growth. The infrastructure and non-residential segments continued to present weak and stable demand. Considering the better demand from manufacturing industry, the Company has been increasing its exposure to this consuming market, which used to be around 20% of shipments in previous years and now is close to 30%.

The Latin America Business Operation posted similar performance, with growth in net sales, led mainly by the shipments growth of 9.7%, especially in its operations in Argentina and Mexico, countries in which GDP growth was estimated at 9% and 5%, respectively. Net sales per tonne slightly increased from R\$ 1,557 in 2009 to R\$ 1,577 in 2010.

Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)	Year ended December 31,		Variaton Year ended	
	2010	2009	December 31, 2010/ Year ended December 31, 2009	
Brazil	Net sales (R\$million)	13,013	10,596	22.8%
	Cost of Sales (R\$million)	(10,179)	(7,516)	35.4%
	Gross Profit (R\$million)	2,834	3,080	-8.0%
	Gross margin (%)	21.8%	29.1%	
North America	Net sales (R\$million)	8,836	8,294	6.5%
	Cost of Sales (R\$million)	(7,998)	(7,703)	3.8%
	Gross Profit (R\$million)	838	591	41.8%
	Gross margin (%)	9.5%	7.1%	
Latin America	Net sales (R\$million)	3,487	3,137	11.2%
	Cost of Sales (R\$million)	(3,021)	(3,070)	-1.6%
	Gross Profit (R\$million)	466	67	595.5%
	Gross margin (%)	13.4%	2.1%	
Special Steel	Net sales (R\$million)	6,611	4,777	38.4%
	Cost of Sales (R\$million)	(5,312)	(4,384)	21.2%
	Gross Profit (R\$million)	1,299	393	230.5%
	Gross margin (%)	19.6%	8.2%	
Intercompany Eliminations	Net sales (R\$million)	(554)	(264)	109.8%
	Cost of Sales (R\$million)	637	368	73.6%
	Gross Profit (R\$million)	83	1034	-19.4%
Total	Net sales (R\$million)	31,393	26,540	18.3%
	Cost of Sales (R\$million)	(25,873)	(22,305)	16.0%
	Gross Profit (R\$million)	5,520	4,235	30.4%
	Gross margin (%)	17.6%	16.0%	

(*) The information above does not include data from jointly controlled entities and associate companies.

On a consolidated basis, the increase in cost of sales in 2010 from 2009 (see table above) is explained by the increase in shipments in the period and the higher raw material prices, mainly metallic inputs, which represented 37% of sales cost in 2009 and increased to 49% in 2010 (an increase of R\$ 4,393 million). However, the increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, which led to gross margin expansion, especially in the Special Steel and Latin America Business Operation.

In the Special Steel Business Operation, as mentioned above, the increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, a consequence of increased shipments (+48.4%). This can be evidenced by the reduction of 18.4% in cost of sales per tonnes compared to a decrease of 6.8% in net sales per tonne during the compared period. This performance led to a significant increase in gross profit and margin.

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The North America Business Operation presented the same performance, but in a lesser extent. The increase in cost of sales was lower than the increase in net sales due to the higher dilution of fixed costs, a consequence of increased shipments (+16.4%), which can be evidenced by the reduction of 10.8% in cost of sales per tonne compared to a decrease of 8.4% in net sales per tonne during the compared period. This performance led to an increase in gross profit and margin.

In the Latin America Business Operation, the reduction in cost of sales compared to an increase in net sales due to the higher dilution of fixed costs allowed the growth in gross profit and margin.

In the Brazil Business Operation, despite the dilution of fixed costs due to the increased shipments in 2010, the mismatch between the increases in raw material prices and the pass-through to steel prices led to a reduction in gross profit and gross margin compression in relation to 2009.

Selling, General and Administrative Expenses

Operating Expenses(*) (R\$ million)	2010	2009	Variation Year ended
			December 31, 2010/ Year ended December 31, 2009
Selling expenses	552	430	28.4%
General and administrative expenses	1,806	1,714	5.4%
Total	2,358	2,144	10.0%
Net sales	31,393	26,540	18.3%
% of net sales	7.5%	8.1%	

(*) The information above does not include data from jointly controlled entities and associate companies.

Despite the increase in selling, general and administrative expenses in 2010 compared to 2009, due to better operational activity level in the period, these expenses represented 7.5% and 8.1% of net revenues, respectively.

Reversal of Impairment (Impairment) of Assets and Restructuring Costs

Reversal of impairment (impairment) of assets and restructuring costs by Business Operation (R\$ million)	2010		2009			
	Special Steel	Total	North America	Latin America	Special Steel	Total
Fixed assets	120	120	(166)	(136)	(218)	(520)
Goodwill					(202)	(202)
Intangible	216	216			(304)	(304)
Investments valued by equity income					(46)	(46)
Reversal impairment of assets	336	336	(166)	(136)	(770)	(1,072)

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Restructuring Costs			(49)		(102)	(151)
Total	336	336	(215)	(136)	(872)	(1,223)

Note: for additional information, please see Note 28 of the Consolidated Financial Statements herein.

In accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), Gerdau's assets undergo impairment testing based on revisions of the prospects for cash generation and the future earnings from the Company's operations.

In 2009, the Company recognized an impairment of assets in the amount of R\$1.1 billion and restructuring costs of R\$151 million which was mainly generated by downward revisions in expectations for operating results in the North America and Special Steel business operations.

In 2010, due to the more favorable market conditions observed at the Special Steel Business Operations, especially in the United States, the impairment testing of assets identified net gains of R\$ 336 million in the period (R\$ 208 million net of income tax), composed of the following effects: in the United States, there was a reversal of losses due to the impairment of intangible assets in the amount of R\$ 216 million, and of fixed assets in the amount of R\$ 188 million; in Spain, the lack of prospects for a recovery in these operations led to loss due to impairment of fixed assets at one of its units in the amount of R\$ 68 million.

Table of Contents*Equity in Earnings of Unconsolidated Companies*

Associate companies and jointly controlled entities, which results are calculated using the equity method, recorded shipments of 1.1 million tonnes of steel in 2010 (based on their respective equity interests), which was 20% more than in 2009, resulting in net sales of R\$ 1.4 billion. Based on these companies' results, equity income was a gain of R\$ 39 million in 2010, versus a loss of R\$ 109 million in 2009.

Income before Financial Income (Expenses) and Taxes

Income before Financial Income (Expenses) and Taxes increased from R\$ 846.9 million in the year ended December 31, 2009 to R\$3,644.6 million in 2010. This difference is due to an improvement in the Company's shipments, better results of Equity in earnings of unconsolidated companies in the year ended December 31, 2010 and negative impact of the impairment test recognized in 2009.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses in Derivatives, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R\$ million)	2010	2009	Variaton Year ended December 31, 2010/ Year ended December 31, 2009
Financial income	296	436	-32.1%
Financial expenses	(1,098)	(1,286)	-14.6%
Exchange variation, net	104	1,061	-90.2%
Gains and Losses on derivatives, net	13	(26)	
Total	(685)	185	

(*) The information above does not include data from jointly controlled entities and associate companies.

The lower foreign exchange variation between the US dollar and the real in the period (an appreciation of the real against US dollar of 25.5% in 2009, versus 4.3% in 2010) was the main factor responsible for the negative financial result in the period, which compares with the positive financial result recorded last year. In 2009, Gerdau's financial result included a gain from the appreciation of the Brazilian real against the U.S. dollar in the period on the translation of foreign-denominated asset balances (export receivables) and liability balances (primarily dollar-denominated debt contracted by Brazilian companies) in the amount of R\$ 1,060.9 million. In 2010, this gain amounted only R\$ 104.4 million.

Of the total foreign-currency debt of US\$ 3.5 billion contracted by companies in Brazil as of December 31, 2010, US\$ 2.7 billion was related to the acquisitions of companies abroad, for which foreign exchange variation was recorded directly on the equity (net investment hedge in relation to some investments). For the remaining US\$ 0.8 billion, the foreign exchange gains or losses are recorded on the income statement.

Income and Social Contribution Taxes

Income and Social Contribution Taxes increased from a negative amount of R\$27.0 million in the year ended December 31, 2009 to a positive amount of R\$501.9 million in the corresponding period of 2010, mainly due to more favorable results in 2010.

Net Income

In fiscal year 2010, consolidated net income increased by 144.5% when compared to 2009, from R\$ 1,004.5 million to R\$ 2,457.4 million, mainly due to the better operating results and the partial reversal of the negative impact of the asset impairment recorded in 2009, as explained above.

At the Brazil Business Operation net income was R\$ 1,184.6 million in 2010, 48.8 % lower than in 2009, mainly due to the weaker operational result and the lower foreign exchange variation between the US dollar and the *real* in the period (an appreciation of the real against US dollar of 4.3% in 2010 R\$ 130.0, versus 25.5% in 2009 R\$ 1,236.7) in the translation into Brazilian *real* of the asset balances (export receivables) and liability balances (especially dollar-denominated debt contracted by Brazilian companies) at the end of each fiscal year.

In 2010 the North America Business Operation had a net income of R\$ 147.6 million compared to a net loss of R\$ 236.1 million in 2009, a consequence of better operational results in 2010 and the recognition of impairment of assets of R\$ 214.4 million in 2009.

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In 2010 the Latin America Business Operation had a net income of R\$ 225.6 million compared to a net loss of R\$ 324.5 million in 2009, a consequence of better operational results in 2010 and the recognition of impairment of assets of R\$ 136.5 million.

In 2010 the Special Steel Business Operation had a net income of R\$ 886.1 million compared to a net loss of R\$ 613.5 million in 2009, a consequence of better operational results and the recognition of a reversal of impairment of assets in the amount of R\$ 336.3 in 2010 against an impairment of assets of R\$ 872.0 million in 2009.

Critical Accounting Policies

Critical accounting policies are those that are both (a) important to present the financial position and results of operations and (b) require Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the presentation of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy described below:

- deferred income and social contribution tax;
- pension and post-employment benefits;
- environmental liabilities;
- derivative financial instruments;
- useful lives of long-lived assets;
- fair value of unquoted derivative financial instruments,
- valuation of assets acquired and liabilities assumed in business combinations,
- business combination, and
- impairment test of assets with definite and indefinite useful life.

a) Deferred Income and Social Contribution Tax

The liability method of accounting (according to the concept described in IAS 12) for income taxes is used for deferred income and social contribution taxes arising from temporary differences between the book value of assets and liabilities and their tax bases. The amount of the deferred income and social contribution tax asset is revised at each Consolidated Financial Statement date and reduced by the amount that is no longer probable of being realized based on future taxable income. Deferred income and social contribution tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

b) Pension and Post-Employment Benefits

Actuarial gains and losses are recorded in the period in which they are originated and are recorded in the statement of comprehensive income.

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

- i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit credit method and management's best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.

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ii) Pension plan assets are stated at fair value.

iii) Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based in actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, expected return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computation other factors whose measurement involves judgment are used such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

c) Environmental Liabilities

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. These analysis requires the Company to make significant estimates and changes in facts and circumstances may result in material changes in environmental provisions.

The steel industry uses and generates substances that may damage the environment. The Company's management performs frequent surveys with the purpose of identifying potentially impacted areas and records as current liabilities and in noncurrent liabilities in the account Environmental liabilities, based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites. The Company used assumptions and estimates for determining the estimated amount, which may vary in the future depending on the final investigations and determination of the actual environmental impact.

The Company is compliant with all the applicable environmental regulations in the countries where they operate (see note 20 of the Consolidated Financial Statements herein).

d) Derivative Financial Instruments

The Company values the derivative financial instruments considering mark to market obtained from market participants, which are the fair value of the financial instruments on the date of the Consolidated Financial Statements. Intense volatility in the foreign exchange and interest rate markets in Brazil has caused, in certain periods, significant changes in forward rates and interest rates over very short periods of time, generating significant changes in the fair value of swaps and other financial instruments over a short period of time. The fair value recognized in its Consolidated Financial Statements may not necessarily represent the amount of cash that the Company would receive or pay, as applicable, if the Company would settle the transactions on the Consolidated Financial Statements date.

e) Useful Lives of Long-Lived Assets

The Company recognizes depreciation of its long-lived assets based on estimated useful lives, which are based on industry practices and prior experience and reflect economic lives of long-lived assets. However, actual useful lives can vary based on technological update of each unit. Useful lives of long-lived assets also affect impairment tests of those long-lived assets, when required.

The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material.

f) Fair Value of Unquoted Derivative Financial Instruments

The Company has entered into financial instruments in connection with some of its acquisitions, which involve commitments to acquire shares from non-controlling interests of the acquired companies, or grant of put options to some non-controlling interests to sell to the Company their shares. Such derivatives are recorded on the Company's balance sheet in the account Put options on non-controlling interest (note 15.f of the Consolidated Financial Statements herein), and the determination of this value involves a series of estimates that can materially impact its final result. The Company estimates the fair value of the companies whose shares the Company is committed to acquire using criteria established in each contract, which are in line with practices observed in the market for estimating fair value of unquoted instruments.

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g) Valuation of Assets Acquired and Liabilities Assumed in Business Combinations

During the last several years, as described at note 3 of the Consolidated Financial Statements, the Company has made certain business combinations. According to IFRS 3, with effect for business combinations occurred after the IFRS transition date, the Company should allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at the appropriate rates. The use of valuation assumptions includes discounted cash flows estimates or discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

The accounting treatment for business acquisitions as from January 1, 2010 changed, if compared to previous years, because the IASB issued a revised version of IAS 27 and IFRS 3. These changes are primarily related to accounting for non-controlling interests, the loss of control of a subsidiary and increase/decrease in interest in a subsidiary without change of control. The revised Standards have resulted in changes in the Company's accounting policies regarding increases or decreases in ownership interests in its subsidiaries. The adoption of this change in accounting policy is expected to affect the accounting for changes in ownership interest as from January 1, 2010, with no impact in business acquisitions performed up to December 31, 2009.

h) Business Combination

Step-acquisitions in which control is obtained

When a business combination is achieved in stages, the interest previously held by the Company in the acquired company is remeasured at fair value at acquisition date (in the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in the profit or loss. The amounts of interests on the acquired company before the acquisition date that was recognized on Other comprehensive income are reclassified in income, where such treatment would be appropriate in case this interest was sold.

Acquisitions in which control is obtained initially

Acquisitions of subsidiaries and businesses are accounted under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange of the control of the acquired control. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling

shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

Increases/decreases in non-controlling interests

In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate.

The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under the revised standards, all increases or decreases in such interests are accounted for within equity, with no impact on goodwill or profit or loss.

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Subsequent purchases, after the Company has obtained control, are treated as the acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

Loss of control of a subsidiary

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest under IAS 28, IAS 31 or IAS 39.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

i) Impairment Test of Assets with definite and indefinite useful life

There are specific rules to assess the impairment of long-lived assets, especially property, plant and equipment, goodwill and other intangible assets. On the date of each Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combination and assets with indefinite useful life are tested for impairment at least once a year, in December.

When the residual carrying value of the asset exceeds its recoverable amount, the Company recognizes a reduction in this asset's book balance.

For assets recorded at cost, the reduction in recoverable amount must be recorded in income for the year. If the recoverable amount of an asset is not determined individually, the recoverable amount of the business segment to which the asset belongs is analyzed.

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Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined considering as if the impairment had not been recorded.

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, including discounted cash flow for units with goodwill allocated and comparing the book value with the recoverable amount of the assets.

Recoverability of goodwill is evaluated based on the analysis and identification of facts and circumstances that can indicate the necessity to anticipate the test that is performed annually. If some fact or circumstance indicates that the recoverability of goodwill is affected on an interim period, then the test is anticipated. In December 2011, the Company carried out goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for expected discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

In December 2011, the Company performed an impairment test for the goodwill on the operating segments and it was not identified impairment loss for the year.

The projection period for the December 2011 cash flows was five years. The premises used to determine the fair value through the discounted cash flow method include: projected cash flow based in the Management estimates to the future cash flows, discount rates and growth rates to the perpetuity determination. Moreover, the perpetuity was calculated considering the stabilization of the operational margins, levels of working capital and investments. The perpetuity growth rate considered was 3% p.a. to the Brazil, Latin America, Specialty Steels and North America segment.

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The discount rates used were determined taking into consideration market information available on the test date. The Company adopted distinct rates to each business segment tested with the objective of demonstrate the differences among the markets in which each segment operate, as well as risk associated to them. The discount rates used were 9.0% p.a. to the North America segment (11.25% in December, 2010), 10.5% p.a. to the Special Steel segment (12.5% in December, 2010), 10.75% p.a. to Latin America segment (12.75% in December, 2010) and 11.0% p.a. to the Brazil segment (13.0% in December, 2010).

Considering the recoverable amount identified through the discounted cash flows, the recoverable amount exceeded the book value in R\$ 9,849.8 million to the North America segment (R\$ 2,126.7 million in December 2010), R\$ 4,295.6 million to the Special Steel segment (R\$ 2,738.7 million in December 2010), R\$ 1,977.1 million to the Latin America segment (R\$ 113.3 million in December 2010), and R\$ 7,430.0 million to the Brazil segment (R\$ 4,877.7 million in December 2010).

Due to the cash flow potential impact of discount rate and perpetuity growth rate variables, the Company performed a sensitive analysis of changes in these variables. A 0.5% increase in the discount rate to the cash flow of each segment would result in recoverable amounts that would exceed the book value in R\$ 8,227.3 million to the North America segment (R\$ 1,378.5 million in December 2010), R\$ 3,672.8 million to the Special Steel segment (R\$ 2,293.2 million in December 2010), R\$ 6,032.6 million to the Brazil segment (R\$ 3,659.1 million in December 2010) and R\$ 1,502.5 million to the Latin America segment (recoverable amount that would be lower the book value in R\$ 182.8 million in December 2010).

On the other hand, a 0.5% decrease in the perpetuity growth rate in the discounted cash flow to each segment would result in recoverable amounts that would exceed the book value in R\$ 8,636.2 million to the North America segment (R\$ 1,646.3 million in December 2010), R\$ 3,866.0 million to the Special Steel segment (R\$ 2,444.2 million in December 2009), R\$ 6,467.8 million to the Brazil segment (R\$ 4,072.9 million in December 2010) and R\$ 1,645.1 million to Latin America segment (recoverable amounts that would be lower than the book value in R\$ 74.9 million in December 2010).

Goodwill that forms part of the carrying amount of an investment in an associate or in a jointly-controlled entity is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a jointly-controlled entity is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or jointly-controlled entity. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination has the recoverability evaluated in an annual basis, and it is anticipated if events or circumstances indicate the necessity. The test considers accepted market practices, including cash flows and compares the book value with its fair value. The reversal of goodwill impairment losses previously recognized from business combination is not allowed. Annually, in December, the Company performs impairment tests for all operating segments, which represents the lowest level in which goodwill is monitored by the management.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for Company's operating segments, based on projected cash flows may be negatively impacted if the economy global recovery happens slowly than expected during the preparation of financial statements in December 2011.

Additional information related to impairment of goodwill and other long lived assets are described at note 27 of Consolidated Financial Statements contained herein.

B. LIQUIDITY AND CAPITAL RESOURCES

Gerdau's usual main source of liquidity is the cash generated by its operating activities. Moreover, the Company counts on committed credit facilities. The Company expects to meet its cash needs for 2012 primarily through a combination of operating cash flow, cash and cash equivalents, short-term investments and capital increase from the public offering.

Cash Flow

The table below presents information for the cash flow of the respective years:

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	For the year ended December 31,				
	2011	2010	2009	Variation 2011 / 2010	Variation 2010 / 2009
Cash flows from operating activities					
Net income for the year	2,097,576	2,457,379	1,004,508	-14.6%	144.6%
Adjustments to reconcile net income for the year to net cash provided by operating activities					
Depreciation and amortization	1,771,881	1,893,074	1,745,319	-6.4%	8.5%
(Reversal) Impairment of assets		(336,346)	1,072,190		
Restructuring costs			150,707		
Equity in earnings of unconsolidated companies	(62,662)	(39,454)	108,957	58.8%	
Exchange variation, net	(51,757)	(104,364)	(1,060,883)	-50.4%	-90.2%
Losses (Gains) on financial instruments, net	65,438	(12,392)	26,178		
Post-employment benefits	15,882	82,611	33,995	-80.8%	143.0%
Stock based remuneration	13,974	18,629	22,380	-25.0%	-16.8%
Income tax	253,096	501,859	26,952	-49.6%	1762.0%
Losses (Gains) on disposal of property, plant and equipment and	21,006	(20,532)	116,989		
Gains on available for sale securities	(28,073)				
Allowance for doubtful accounts	42,980	16,018	57,971	168.3%	-72.4%
Provision for tax, labor and civil claims	261,024	199,092	(15,886)	31.1%	
Interest income on investments	(265,766)	(174,622)	(346,531)	52.2%	-49.6%
Interest expense on loans	828,106	919,594	992,693	-9.9%	-7.4%
Interest on loans with related parties	(4,388)				
Provision for net realisable value adjustment in inventory	56,999	50,526	36,459	12.8%	38.6%
Reversal of net realisable value adjustment in inventory	(122,877)	(50,634)	(196,981)	142.7%	-74.3%
	4,892,439	5,400,438	3,775,017	-9.4%	43.1%
Changes in assets and liabilities:					
(Increase) Decrease in trade accounts receivable	(203,041)	(660,891)	1,449,678	-69.3%	
(Increase) Decrease in inventories	(681,604)	(1,160,419)	3,766,059	-41.3%	
Increase (Decrease) in trade accounts payable	1,121,433	110,358	(1,731,878)	916.2%	
(Increase) Decrease in other receivables	(415,192)	176,403	(148,962)		
(Decrease) Increase in other payables	(127,854)	(168,962)	203,038	-24.3%	
Distributions from jointly-controlled entities	61,150	68,647	41,887	-10.9%	63.9%
Purchases of trading securities	(6,113,717)	(712,204)	(1,283,438)	758.4%	-44.5%
Proceeds from maturities and sales of trading securities	4,384,832	2,423,597	1,642,383	80.9%	47.6%
Cash provided by operating activities	2,918,446	5,476,967	7,713,784	-46.7%	-29.0%
Interest paid on loans and financing	(726,360)	(796,799)	(1,026,893)	-8.8%	-22.4%
Income and social contribution taxes paid	(482,068)	(541,048)	(336,299)	-10.9%	60.9%
Net cash provided by operating activities	1,710,018	4,139,120	6,350,592	-58.7%	-34.8%
Cash flows from investing activities					
Additions to property, plant and equipment	(1,961,379)	(1,288,769)	(1,377,776)	52.2%	-6.5%
Proceeds from sales of property, plant and equipment, investments and other	11,473	19,269	64,606	-40.5%	-70.2%
Additions to other intangibles	(141,666)	(94,598)		49.8%	
Advance for capital increase in jointly-controlled entity	(74,785)				
Payment for business acquisitions, net of cash of acquired entities		(283,110)	(71,068)		298.4%
Purchases of available for sale securities					