

OFFERING MEMORANDUM

U.S.\$1,250,000,000

GERDAU HOLDINGS INC.

(a Delaware corporation)



7.00% Bonds Due 2020

Unconditionally and irrevocably guaranteed by

Gerdaу S.A.

Gerdaу Açominas S.A.

Gerdaу Aços Longos S.A.

Gerdaу Aços Especiais S.A.

Gerdaу Comercial de Aços S.A.

(each incorporated in the Federative Republic of Brazil)

Gerdaу Holdings Inc., which we refer to as the “Issuer,” is offering US\$1,250,000,000 aggregate principal amount of its 7.00% guaranteed bonds, which we refer to as the “bonds.” The bonds will initially be sold to investors at a price equal to 98.20% of the principal amount thereof, plus accrued interest, if any, from November 24, 2009. Interest on the bonds will accrue at a rate of 7.00% per year and will be payable semi-annually in arrears on January 20 and July 20 of each year, commencing on July 20, 2010.

The bonds will mature on January 20, 2020. The Issuer may, at its option, redeem the bonds, in whole but not in part, at 100% of their principal amount plus accrued interest at any time upon the occurrence of specified events relating to applicable tax law, as described under “Description of the Bonds—Early Redemption.” The bonds will also be repayable prior to maturity thereof upon the occurrence of a change of control as described herein. See “Description of the Bonds—Covenants—Repurchase of Bonds upon a Change of Control.”

The bonds will be unconditionally and irrevocably, jointly and severally, guaranteed by Gerdaу S.A., the ultimate parent holding company of Gerdaу Holdings Inc., and its majority-owned Brazilian operating subsidiaries Gerdaу Açominas S.A., Gerdaу Aços Longos S.A., Gerdaу Aços Especiais S.A. and Gerdaу Comercial de Aços S.A., which, collectively, we refer to as the “Guarantors.”

The bonds will be senior unsecured obligations of the Issuer, ranking equal in right of payment with all of the Issuer’s other existing and future senior unsecured debt. The guarantees of the bonds will rank *pari passu* with all unsecured and unsubordinated obligations of each of the Guarantors.

Application has been made to list the bonds in the Official List of the Luxembourg Stock Exchange and to trade the bonds on the Euro MTF Market of that exchange, which we refer to as “Euro MTF.” See “Listing and General Information.”

Investing in the bonds involves risks, see “Risk Factors” beginning on page 15.

Issue Price: 98.20%
plus accrued interest, if any from November 24, 2009

The bonds were delivered to purchasers in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on November 24, 2009.

The bonds and the guarantees of the bonds have not been registered under the U.S. Securities Act of 1933, as amended, which we refer to as the “Securities Act,” or under any state securities laws. Therefore, the bonds may not be offered or sold within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, the bonds are being offered and sold (1) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. See “Notice to Investors” for additional information about eligible offerees and transfer restrictions. To the extent that the offering of the bonds is made to persons within the European Economic Area, it shall exclusively be made to “qualified investors” within the meaning of EU Directive 2003/71/EC, which we refer to as the “Prospectus Directive,” and therefore is exempt from the requirement to publish a compliant prospectus under the Prospectus Directive. This offering memorandum constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on Prospectuses for Securities.

Joint Bookrunners

HSBC Santander Itaú BofA Merrill Lynch Citi J.P. Morgan

Co-Managers

**BB Securities BBVA Securities BNP PARIBAS BRADESCO BBI
CALYON Goldman, Sachs & Co. Morgan Stanley Scotia Capital**

You should rely only on the information contained in this offering memorandum. Neither the Company nor the Issuer have authorized anyone to provide you with different information. The initial purchasers are not and the Company and the Issuer are not making an offer of the bonds in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the cover of this offering memorandum regardless of the time of delivery of this offering memorandum or of any sale of the bonds.

TABLE OF CONTENTS

	<u>Page</u>
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	iv
WHERE YOU CAN FIND MORE INFORMATION	vi
INCORPORATION BY REFERENCE	vi
FORWARD-LOOKING STATEMENTS	vii
SUMMARY	1
SUMMARY OF THE OFFERING	7
SUMMARY FINANCIAL AND OTHER INFORMATION OF GERDAU	11
RISK FACTORS	15
USE OF PROCEEDS	17
EXCHANGE RATES	18
CAPITALIZATION OF GERDAU	19
RECENT DEVELOPMENTS	20
DESCRIPTION OF THE BONDS	34
FORM OF BONDS	51
TAXATION	55
ERISA AND CERTAIN OTHER CONSIDERATIONS	59
EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME	60
NOTICE TO INVESTORS	62
ENFORCEMENT OF CIVIL LIABILITIES	64
PLAN OF DISTRIBUTION	65
NOTICE TO CANADIAN RESIDENTS	71
LEGAL MATTERS	73
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS	73
LISTING AND GENERAL INFORMATION	74
INDEX TO FINANCIAL STATEMENTS	75

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to (i) “Issuer” refer to Gerdau Holdings Inc., a Delaware corporation, (ii) “Gerdau,” “the Company” or similar terms refer to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil, which we refer to as “Brazil,” and its consolidated subsidiaries, (iii) the “Guarantors” refer to Gerdau S.A., Gerdau Açominas S.A., which we refer to as “Gerdau Açominas,” Gerdau Aços Longos S.A., which we refer to as “Gerdau Aços Longos,” Gerdau Aços Especiais S.A., which we refer to as “Gerdau Aços Especiais,” and Gerdau Comercial de Aços S.A., which we refer to as “Comercial Gerdau” and (iv) “Gerdau Ameristeel” refer to Gerdau Ameristeel Corp., a corporation organized under the laws of the Province of Ontario, Canada, and a majority-owned subsidiary of Gerdau.

The Company and the Issuer are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing bonds, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under “Notice to Investors” in this offering memorandum.

You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

The Company and the Issuer have submitted this offering memorandum to a limited number of investors so that they can consider a purchase of the bonds. Neither the Company nor the Issuer have authorized its use for any other purpose. By accepting delivery of this offering memorandum, you agree to these restrictions as well as the acknowledgements, representations and warranties described under “Notice to Investors.”

The Company and the Issuer, having made all reasonable inquiries, confirm that, as of the date of this offering memorandum, the information contained in this offering memorandum with regard to the Issuer, the Company and the other Guarantors is true and accurate in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Company and the Issuer accept responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Company and the terms of the offering and the bonds, including the merits and risks involved.

In connection with this offering, the initial purchasers may over-allot bonds or effect transactions with a view to supporting the market price of the bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the bonds and 60 days after the date of the allotment of the bonds.

The initial purchasers assume no responsibility for, and make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers accept no responsibility in relation to the information contained in this offering memorandum or any other information provided by the Company, the Issuer or any of the Guarantors in connection with the bonds.

No representation is being made to any purchaser of the bonds regarding the legality of an investment in the bonds by such purchaser under any investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding an investment in the bonds.

Neither the U.S. Securities and Exchange Commission, which we refer to as the “SEC,” nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

With respect to the United Kingdom, this document is only being distributed to, and is only directed at, (1) persons who are outside the United Kingdom, (2) investment professionals falling within Article 19(5) of the Financial Services and Market Act 2000 (Financial Promotion) Order 2005, which we refer to as the “Order,” or (3) high net worth entities, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The bonds are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such bonds will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. See “Plan of Distribution.”

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR

QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

The Company's unaudited condensed consolidated interim financial information as of September 30, 2009 and for the nine month period ended September 30, 2009 and 2008, which are included elsewhere in this offering memorandum, have been presented in Brazilian *reais* and prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting, which we refer to as "IAS 34." The Company's audited consolidated financial statements as of December 31, 2008 and 2007, and for each of the three years ended December 31, 2008, which are incorporated by reference in the offering memorandum to the Company's Annual Report on Form 20-F for the year ended December 31, 2008 filed with the SEC on July 15, 2009, as amended by Form 20-F/A filed on July 21, 2009, which we refer to as the "2008 Annual Report," have been presented in Brazilian *reais* and prepared in accordance with International Financial Reporting Standards, which we refer to as "IFRS," as issued by the International Accounting Standards Board, which we refer to as the "IASB."

Gerdaу's operations are located in Argentina, Brazil, Canada, Chile, Colombia, Dominican Republic, Guatemala, India, Mexico, Peru, Spain, the United States, Uruguay and Venezuela. The local currency is the functional currency for those operations. The financial statements of the subsidiaries located outside Brazil, which already prepare their financial statements in Brazilian *reais*, are translated from the functional currency into Brazilian *reais*. Such financial statements have been translated into Brazilian *reais* following the criteria established in International Accounting Standard, which we refer to as "IAS," No. 21, "The Effects of Changes in Foreign Exchange Rates" from the financial statements expressed in the local currency of the countries where the Company and each of its subsidiaries operate. Under such criteria assets and liabilities are translated at the exchange rate in effect at the end of each year and average exchange rates are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in "Cumulative translation difference" within Equity. Gains and losses on foreign-currency denominated transactions are included in the consolidated statements of income.

All references in this offering memorandum to "*real*," "*reais*" or "R\$" are to the currency of Brazil. All references in this offering memorandum to "U.S. dollars," "dollars" or "US\$" are to the currency of the United States of America.

Gerdaу Operating Segments

Beginning with the fiscal year 2009, the Company's board of directors approved the new governance of the Company, which established a new business segmentation, as follows: Brazil Operations (includes all operations in Brazil, other than specialty steels), which we refer to as "Brazil Operations," North American Operation (includes all operations in North America, except those in Mexico and specialty steels), which we refer to as "North American Operations," Latin American Operation (includes all operations in Latin America, except Brazil), which we refer to as "Latin American Operations," and Specialty Steel Operation (including specialty steel operations in Brazil, Europe and the United States), which we refer to as "Specialty Steel Operations." The unaudited condensed consolidated interim financial statements of the Company as of September 30, 2009 and 2008, which are included elsewhere in this offering memorandum, were prepared considering the new business segmentation as disclosed in Note 18 thereto.

Açominas and Long Steel Brazil, previously treated as separate segments, are now reported as a single operating segment since management is no longer monitoring individual information about Açominas and Long Steel Brazil, but rather information concerning a unified operating segment reflected as Brazil Operations.

Installed Capacity and Sales Volume

As used in this offering memorandum:

- "installed capacity" means the annual projected capacity for a particular facility (excluding the portion that is not attributable to the Company's participation in a facility owned by a joint venture), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

- “tonne” means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds; and
- “consolidated shipments” means the combined volumes shipped from all the Company’s operations in Brazil, Latin America, North America and Specialty Steel, excluding the Company’s joint ventures and associated companies.

Rounding

The Company has made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

Market Information

The Company makes statements in this offering memorandum about its competitive position and market share in, and the market size of, the steel industry. These statements are based on statistics and other information from third-party sources that the Company believes are reliable. The Company derived this third-party information principally from reports published by the International Iron and Steel Institute, which we refer to as “IISI,” Brazilian Steel Institute – *Instituto Aço Brasil*, and the Commodities Research Unit, which we refer to as the “CRU,” among others. Although the Company has no reason to believe that any of this information or these reports are inaccurate in any material respect, the Company has not independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications. The Company takes the responsibility for the correct extraction and reproduction of this information.

WHERE YOU CAN FIND MORE INFORMATION

To comply with Rule 144A under the Securities Act in connection with resale of the bonds, the Issuer is required to furnish upon request of a holder of a bond, each a “holder,” or of a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of such request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, which we refer to as the “Exchange Act,” nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Company will agree to furnish the information necessary in order to permit the compliance by the Issuer with the information delivery requirements under Rule 144A(d)(4) under the Securities Act

Each of Gerdau S.A. and Gerdau Ameristeel Corporation is a reporting company subject to the informational requirements of the Exchange Act and, in accordance therewith, files reports and other information with the SEC. As foreign private issuers, Gerdau S.A. and Gerdau Ameristeel are exempt from the Exchange Act rules regarding the provision and control of proxy statements and regarding short-swing profit reporting and liability. Under a multi-jurisdictional disclosure system adopted by the United States and Canada, Gerdau Ameristeel generally may prepare these reports and other information in accordance with the disclosure requirements of Canada, which are different from those of the United States. Such reports and other information can be inspected and copied at the public references facilities of the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Gerdau S.A. and Gerdau Ameristeel file materials with, and furnish material to, the SEC electronically using the EDGAR System. The SEC maintains an Internet site that contains these materials at www.sec.gov. In addition, such reports, proxy statements and other information concerning Gerdau S.A. can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which equity securities of Gerdau S.A. are listed.

The Company’s interim results for September 30, 2009 were submitted to the SEC on November 5, 2009 on Form 6-K and Gerdau Ameristeel’s Annual Report on Form 40-F for the year ended December 31, 2008 was filed with the SEC on March 30, 2009 but neither of these filings are incorporated by reference into this offering memorandum. You may request a copy of these filings, at no cost, by contacting Gerdau S.A. at the number or address specified below.

INCORPORATION BY REFERENCE

The Company’s 2008 Annual Report is incorporated by reference herein. You may request a copy of this filing, at no cost, by contacting Gerdau S.A. at the number or address specified below. The 2008 Annual Report will also be available on the website of the Luxembourg Stock Exchange at www.bourse.lu. The indenture, dated as of November 24, 2009, among the Issuer, the Guarantors, The Bank of New York Mellon as trustee (which term includes any successor as trustee under the indenture) and principal paying agent, transfer agent and registrar (which terms include any successor under the indenture) and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent and Transfer Agent is also incorporated by reference herein.

Gerdau’s principal executive office, as well as that for the other Guarantors, is at Av. Farrapos 1811, CEP 90220-005, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number at this address is (+55-51) 3323-2000.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to the Company's 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 the Company believes 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 the Company.

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

- general economic, political and business conditions in the Company's markets, both in Brazil and abroad, including demand and prices for steel products;
- the effects of the global financial markets and economic crisis;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which the Company sells a significant portion of its products or in which its assets and liabilities are denominated;
- the Company's ability to obtain financing on satisfactory terms;
- increases in the cost of steel scrap, energy and other raw materials;
- excess global steel industry capacity and the availability of competitive substitute materials;
- changes in international trade;
- the cost of compliance with environmental and occupational health and safety laws;
- the enactment of laws intended to reduce greenhouse gases and other air emissions;
- electric energy shortages and government responses to them;
- 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 "Item 3.D. Risk Factors," in our 2008 Annual Report, incorporated by reference herein.

The Company's forward-looking statements are not guarantees of future performance, and the 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.

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

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the bonds. You should carefully read this entire offering memorandum before investing, including "Risk Factors," the Company's unaudited condensed consolidated interim financial statements included elsewhere in this offering memorandum and the Company's consolidated financial statements included in its 2008 Annual Report, incorporated by reference herein. See "Presentation of Financial and Other Information" and "Summary Financial and Other Information of Gerdau" for information regarding the Company's unaudited condensed consolidated interim financial statements and consolidated financial statements.

Gerdau

Overview

According to the Brazilian Steel Institute, 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 Worldsteel as the world's 13th largest steel producer based on its consolidated crude steel production in 2008.

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 three blast furnace steel mills, including its largest mill, Gerdau Açominas, an integrated steel mill located in Ouro Branco in the state of Minas Gerais. The Company currently has a total of 61 steel producing units globally, including joint ventures and associated companies. The joint ventures include a unit located in the United States for the production of flat rolled steel and another unit in India. The associated companies are Aceros Corsa in Mexico; Corporación Centroamericana del Acero in Guatemala; and INCA in the Dominican Republic.

In the fiscal year ended December 31, 2008, approximately 34.4% of all physical sales were generated from operations in Brazil, 40.0% from operations in North America, 11.7% from Latin American Operations (excluding Brazil) and 13.9% from Specialty Steel operations.

As of both December 31, 2008 and September 30, 2009, total consolidated installed capacity, excluding the Company's investments in joint ventures and associated, companies, was approximately 26 million tonnes of crude steel and 22 million tonnes of rolled steel products. At December 31, 2008, the Company had total consolidated assets of R\$ 59.1 billion, and in 2008 its consolidated net sales were R\$ 41.9 billion and total consolidated net income was R\$ 4.9 billion. At September 30, 2009, the Company had total consolidated assets of R\$ 45.9 billion, and in the nine month period ended September 30, 2009 its consolidated net sales were R\$ 20.2 billion and total consolidated net income was R\$ 361 million.

Beginning with the fiscal year 2009, the Company's board of directors approved the new governance of the Company, which established a new business segmentation, as follows: Brazil Operations (includes all operations in Brazil, other than specialty steels), North American Operation (includes all operations in North America, except those in Mexico and specialty steels), Latin American Operation (includes all operations in Latin America, except Brazil) and Specialty Steel Operation (including specialty steel operations in Brazil, Spain and the United States). In the first nine months of 2009, the Company generated approximately 36% of total net sales from its Brazilian Operations, of this amount 68% came from domestic sales and 32% from exports. Of the total net sales 36% came from its North American Operations, 15% from its Latin American Operations (excluding Brazil), and 13% from its Specialty Steel Operations.

The Company 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 specialty 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 Spain. 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 girders.

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, in recent years, and especially after acquiring the Ouro Branco plant, the Company has had a significant exposure to international markets. In the first nine months of 2009, the Company exported 32% of its shipments from Brazil, 26% in 2008, 33% in 2007 and 36% in 2006. The Company has a diversified list of international customers and its main export destinations include Asia, Africa and Latin America.

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; and fabrication shops and downstream operations.

In 2008, approximately 13.7% of the production sold in Brazil before intercompany eliminations was distributed through Comercial Gerdau, the Company's largest distribution channel, with 68 stores throughout Brazil, 14 fabricated reinforcing steel facilities (Prontofer) and four flat steel service centers, serving more than 120,000 customers in the year. Another important distribution channel is the network of almost 21,000 sales channels to which Gerdau sells its products, giving it comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are channeled through Company employees and authorized representatives working on commission.

The Company operates in North America through its majority-owned subsidiary, Gerdau Ameristeel. The Company has annual manufacturing capacity of over 10.3 million tonnes of mill finished steel products. It has a vertically integrated network of 18 steel units and one 50.0%-owned joint venture for the operation of a mini-mill, 22 scrap recycling facilities, 14 downstream operations (including three 50.0%-owned joint ventures) and 56 fabrication shops. Gerdau Ameristeel primarily serves customers in the eastern regions of the United States and Canada. Gerdau Ameristeel'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.

The Company's Latin American Operations are comprised of 18 steel units (including joint ventures and associated companies), 30 retail facilities, 13 fabrication shops (including joint ventures and associated companies) and 6 scrap processing facilities located in 9 countries. The entire operation is focused on the respective domestic markets of each country, operating mini-mill facilities with annual manufacturing capacity of 2.9 million tonnes of finished steel products. Our Latin American Operations accounted for 11.7% of overall Gerdau shipments, representing 2.2 million tonnes of finished products in 2008, a 0.8% decrease compared with 2007. The main countries contributing to our Latin American Operations are Chile, Mexico, Colombia and Peru. Gerdau also operates in the markets of Uruguay, Argentina, Dominican Republic, Venezuela and Guatemala.

Business Strategy

The Company's goal is to produce high quality steel and steel related products on a cost effective basis that satisfies both the needs of its customers and the goals of its security holders. The Company seeks to accomplish the foregoing through the following measures:

Increase Market Share for Value-Added Products

The Company intends to focus on increasing its market share of value-added products that meet the specific needs of its customers through advanced customization and technology. The three main markets in which the Company operates are:

- construction, to which it supplies rebars, merchant bars, nails and meshes,
- manufacturing, to which it supplies bars for machinery and agricultural implements, tools and other industrial products, and
- agriculture, to which it supplies wires and posts for agricultural facilities and reforestation projects.

The Company also produces specialty steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries. The Company intends to increase its market share of value-added products in such a way as to directly meet the specific needs of its customers and, consequently, capture the higher prices paid for these products.

In addition, the Company intends to add value to its products through steel-cutting and shaping units, and downstream operations, such as epoxy coating and production of products with specialty sections, wire and nails, cold-drawn products, elevator guide rails and super-light profiles. Finally, the Company intends to expand its portfolio of products manufactured by the Company in Brazil, so as to operate in all segments, including flat steel.

Increase Presence in Global Markets

In the fiscal year ended December 31, 2008, approximately 34.4% of all physical sales were generated from operations in Brazil, 40.0% from operations in North America, 11.7% from operations in Latin America (excluding Brazil) and 13.9% from Specialty Steel Operations. Outside of Brazil, the Company has been pursuing a long term globalization strategy of expanding through acquisitions of mills at which Gerdau believes it can increase the profitability through its management expertise rather than through significant capital investments. Over the years the Company has increased participation principally in the North American market and today it is the second largest producer of long rolled steel products in that market. The Company's main recent acquisitions included:

- In June 2007, Gerdau and the Kalyani Group from India initiated an agreement to establish a joint venture for an investment in Tadipatri, India. The joint venture included an interest of 45% in Kalyani Gerdau Steel Inc., 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 joint venture, and the purchase price was US\$73.0 million (R\$ 127.3 million). Gerdau concluded this joint venture agreement.
- 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 was the second largest producer of structural steel products in North America and also the largest producer of steel bars. 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 US\$4.2 billion (R\$ 7.8 billion), plus the assumption of certain liabilities.
- In November 2007, Gerdau entered into a binding agreement for the acquisition of Quanex Corporation, which, through 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 purchase price for this acquisition was

US\$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 February 2008, Brazil's National Electric Power Agency (ANEEL) transferred to Gerdau the concession to operate the São João – Cachoeirinha Hydroelectric Power Plant complex, which comprises two power plants to be built on the Chopim River, located in the cities of Honório Serpa and Clevelândia in Paraná state. The plant complex will have 105 MW of installed capacity (São João - 60 MW and Cachoeira - 45 MW), with construction to be concluded in 2012.
- 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, which has total installed capacity of 450,000 tonnes of crude steel and 630,000 tonnes of rolled steel. 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 US\$180 million (R\$ 303.7 million).
- 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 US\$ 73.0 million (R\$ 119.3 million). The Company has annual coke production capacity of 1.0 million tonnes and coking coal reserves estimated at 20 million tonnes.

Respond to Customer Needs Through Diversified and Decentralized Production

The Company intends to continue its practice of diversifying production of long steel by using electric arc furnace mini-mills and integrated mills with blast furnaces, with continuous casting technology being used with both processes. All of the Company's plants are sized and located to meet primarily the needs of local markets and provide efficient access to customers and raw materials. This is a strategy that the Company has developed in response to the geographic size of Brazil and the United States and Canada and the resulting high transportation and freight costs in these countries. The Company is able to supply its customers and obtain raw materials locally, which reduce production and transportation costs and allow it to deliver quality products to its customers at cost-effective prices. The diversification of geographical location of the Company's mills has allowed it to better serve its clients' needs by ease of delivery of products. Proximity to its clients in the various geographic locations in which the Company operates also enables it to maintain a productive relationship with its customers, providing it with the ability to produce according to the customers' specifications, in particular with respect to merchant bars.

Maintain Multiple Sources of Raw Materials

The Company does business with several steel scrap distributors worldwide and numerous suppliers for pig iron, iron ore and, to a lesser extent, coking coal. In Brazil, 80% of the scrap suppliers are captive and the Company works with 39 collection units and scrap processing companies. The Company recently acquired a coking coal mill and a coking coal reserve in Columbia. The Company believes that this allows it to avoid any dependency on specific suppliers and reduces possible negative impacts in the event of raw material shortages. The Company believes that the diversification of productive processes mitigates its exposure to the scarcity of inputs.

Continued Focus on Technology and Efficient Operations

The Company believes that continuous focus on technology will allow it to maintain its position as a world class steel producer. Since 2008 through the first nine months of 2009, the Company has invested R\$ 3,681.5 million in additions to property, plant and equipment, particularly for improvements to its mills, refinements to its production processes and technology updates in acquired companies.

During this period, the Company has invested significant amounts in the installation of continuous slab casting at Açominas (Brazil), the installation of the new melting shop in Tocancipá (Colombia), the installation of block casting at Sidenor (Spain), the expansion of capacity at Sidertul's rolling mill and melting shop (Mexico), the commencement of a project for the new finishing-end area in Wilton (USA), a new reheating furnace in Midlothian

(USA), the installation of the block reheating furnace at Siderperú (Peru) and increase in continuous casting speed at Aços Especiais Piratini (Brazil).

The Company believes that attention to its production processes and upgrading where appropriate will allow it to continue to maintain its efficiencies and deliver products that are responsive to the needs of its customers. In addition, the Company continues to seek ways in which it can improve the efficiency in its production process by, among other things,

- using proven quality management control systems, including a proprietary management system that supports the Company's operations and integrates acquired mills, most of the internationally recognized techniques and processes and ISO 14,000 processes,
- reducing production costs by implementing efficient control processes and using less expensive raw materials and fuels and adopting new process technologies,
- reducing energy consumption, with an emphasis on using more energy-efficient processes such as reuse of in-plant generated energy in the Company's Ouro Branco mill,
- reducing inventory levels which decreases its need for working capital, and
- increasing revenues by adding value to its products through selected, focused investments in the Company's mills.

Industry Cyclicity

The global steel industry is highly cyclical. Consequently, the Company is exposed to substantial volatility 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 exports. 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), the strength in the euro 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 persist, especially in view of the expansion in installed capacity worldwide or the recent lower level of demand. Since 2008 and more specifically in the beginning of 2009, the United States economy has shown strong signs of lower economic activity, affecting many other countries. See "Recent Developments—Overview."

Gerdau Holdings Inc.

Gerdau Holdings Inc. or the "Issuer," is the Company's indirect subsidiary. The Issuer was formed on April 9, 2008 as a corporation under the Delaware General Corporation Law and is owned by GTL Macsteel Hungria Kft., a Hungarian corporation which in turn is owned by Gerdau S.A. For a more detailed description of the ownership structure of the Issuer, see the chart under "—The Guarantors" below. The Issuer does not have any consolidated indebtedness.

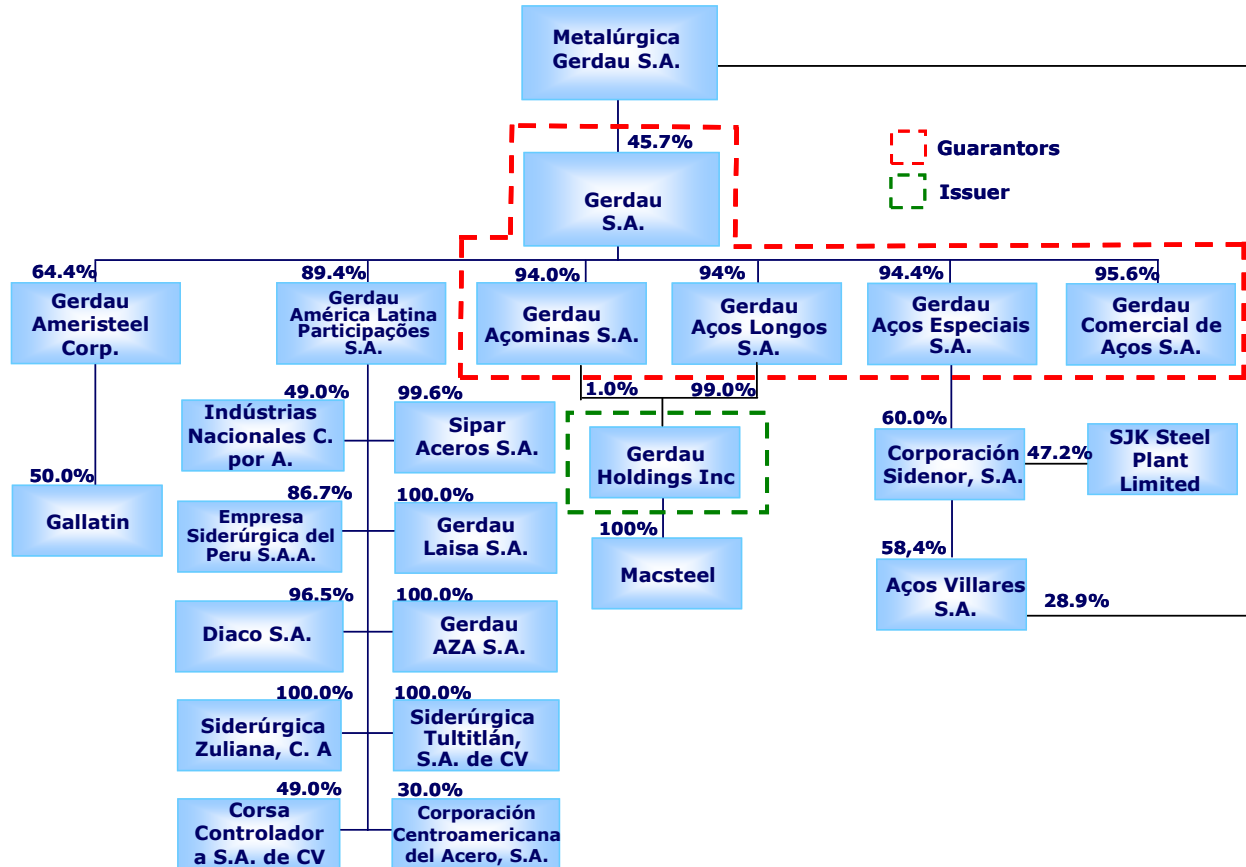
As of the date hereof Gerdau Holdings Inc. has 1,000,000 authorized shares of common stock, with a par value of US\$1.00 per share. The registered office of Gerdau Holdings Inc. is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The Issuer was formed for the purpose of acting as one of the holding companies of the Gerdau group in the United States and currently has no operations.

The Company has not included any financial statements for the Issuer in this offering memorandum. The Issuer will not publish financial statements. In addition, the Issuer does not intend to furnish to the trustee or the holders of the bonds any financial statements of, or other reports relating to, the Issuer.

The Guarantors

The Issuer's obligations under the bonds will be unconditionally and irrevocably, jointly and severally, guaranteed by the group's principal operating entities in Brazil: Gerdau (which is the ultimate parent entity that owns all of the Gerdau businesses) and the other Guarantors, each of which is a majority-owned Brazilian operating subsidiary of Gerdau.

The following chart summarizes the operational structure of the Company's principal operating subsidiaries engaged in the steel production business showing its percentage of total capital:



Gerdau Açominas focuses on the production of crude steel (billets, blooms and slabs). Gerdau Aços Longos focuses on the production of common long steel and Gerdau Aços Especiais focuses on the production of specialty long steel. Comercial Gerdau, which the Company believes is the largest steel product distribution network in Brazil, sells long steel products produced by the Company and distributes flat steel products produced by other Brazilian steel companies.

Gerdau Açominas, Gerdau Aços Especiais, Gerdau Aços Longos and Comercial Gerdau represent R\$ 15.398 million or 33.5% of the group's net assets and R\$ 2.236 million or 87% of the group's EBITDA.

See "Company Information" in Item 4 of the Company's 2008 Annual Report, incorporated by reference into this offering memorandum for additional information regarding the Guarantors. You may also find updated information on our internet website, www.gerdau.com. Information contained in our website does not constitute part of this offering memorandum.

SUMMARY OF THE OFFERING

This summary describes the principal terms of the indenture governing the bonds and the guarantees of the bonds. Certain terms described below are subject to important limitations and exceptions. The "Description of the Bonds" section of this offering memorandum contains a more detailed description of the terms and conditions of the bonds and the guarantees of the bonds.

Issuer	Gerdau Holdings Inc., a Delaware corporation.
Guarantees	The bonds will be guaranteed on a senior unsecured basis by Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A., which we collectively refer to as the "Guarantors."
Bonds offered	US\$1,250,000,000 aggregate principal amount of 7.00% bonds.
Interest rate	The bonds will bear interest from November 24, 2009 at the annual rate of 7.00%, payable semi-annually in arrears on each interest payment date.
Interest payment dates	January 20 and July 20, commencing on July 20, 2010.
Issue price	98.20% of the principal amount, plus accrued interest, if any, from November 24, 2009.
Maturity	January 20, 2020.
Ranking of the bonds and the guarantees	<p>The bonds will be the Issuer's senior unsecured obligations ranking:</p> <ul style="list-style-type: none">• at least <i>pari passu</i> in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain statutory preferences under applicable law, including labor and tax claims;• senior in right of payment to any subordinated debt of the Issuer; and• effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of the Company's subsidiaries that are not Guarantors and to the Company's secured debt and other secured obligations to the extent of such security. <p>The guarantees will be each Guarantor's senior unsecured obligations ranking:</p> <ul style="list-style-type: none">• <i>pari passu</i> in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain

statutory preferences under applicable law, including labor and tax claims;

- senior in right of payment to any subordinated debt of that Guarantor; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor’s subsidiaries and to secured debt and other secured obligations of that Guarantor and its subsidiaries to the extent of such security.

See “Description of the Bonds—Ranking.”

Early redemption	The Issuer may, at its option, redeem the bonds, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to applicable tax laws. See “Description of the Bonds—Early Redemption.”
Additional amounts.....	Payments of principal and interest on the bonds will be made after withholding and deduction for any present or future taxes, except as required by applicable law. The Issuer, in respect of the bonds, and the Guarantors, in respect of the guarantees, will pay such additional amounts as will result in receipt by the holders of bonds of such amounts as would have been received by them had no such withholding or deduction for taxes been required, subject to certain exceptions set forth under “Description of the Bonds—Additional Amounts.”
Change of control offer.....	Upon the occurrence of a change of control that results in a ratings decline, Gerdau, acting on behalf of the Issuer, will make an offer to purchase all outstanding bonds (including all the outstanding existing bonds) at a purchase price equal to 101% of their principal amount plus accrued interest to the date of purchase, as described under “Description of the Bonds—Covenants—Repurchase of Bonds upon a Change of Control.”
Use of proceeds	The net proceeds from the sale of the bonds will be made available to the Company and its subsidiaries, to be used by the Company and its subsidiaries to repay part of their indebtedness (which may include indebtedness owed to one or more of the initial purchasers), extending their debt maturity profile.
Covenants	The indenture governing the bonds and the guarantees of the Guarantors will restrict the ability of the Issuer, the Guarantors and their subsidiaries to: <ul style="list-style-type: none">• create liens;

- enter into transactions with affiliates; and
- consolidate with or merge with or into another person or transfer assets to another person.

Each of these covenants is subject to exceptions and limitations. See “Description of the Bonds—Covenants.”

Events of default	For a discussion of certain events of default that will permit acceleration of the principal of the bonds plus accrued interest. See “Description of the Bonds—Events of Default.”
Further issuances	The Issuer may from time to time without notice to or consent of the holders of bonds create and issue an unlimited principal amount of additional bonds of the same series as the bonds initially issued in this offering.
Form and denomination; settlement	<p>The bonds were issued in the form of global bonds in fully registered form without interest coupons, as described under “Form of the Bonds.” The global bonds will be exchangeable or transferable, as the case may be, for definitive certificated bonds in fully registered form without interest coupons only in limited circumstances. The bonds were issued in registered form in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof. See “Description of the Bonds—Form, Denomination and Title” and “Form of the Bonds.”</p> <p>The bonds were delivered in book-entry form through the facilities of The Depository Trust Company, which we refer to as “DTC,” for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, which we refer to as “Euroclear,” and Clearstream Banking, S.A. Luxembourg, which we refer to as “Clearstream Luxembourg,” and will trade in DTC’s Same-Day Funds Settlement System.</p>
Notice to investors	The bonds have not been, and will not be, registered under the Securities Act and are subject to limitations on transfers, as described under “Notice to Investors.”
Listing and Trading	Application has been made to list the bonds on the Euro MTF. The Issuer cannot assure you that the bonds will remain so listed. The Directive of the European Parliament and the Council (2003/0045) (COD) (the Transparency Directive) regarding the harmonization of transparency requirements relating to financial information of issuers whose securities are admitted to trading on a regulated market in the European Union, such as the Luxembourg Stock Exchange, is now required to be implemented by the EU member states. The Issuer will at all times use its reasonable efforts to maintain the listing of the bonds on the Euro MTF.

Governing law	The indenture and the bonds will be governed by the laws of the State of New York.
Trustee, principal paying agent, registrar and transfer agent	The Bank of New York Mellon
Luxembourg listing agent	The Bank of New York Mellon (Luxembourg) S.A.
Risk Factors	You should carefully consider the risk factors discussed elsewhere in this offering memorandum and in “Item 3.D. Risk Factors” in the Company’s 2008 Annual Report, incorporated by reference herein before purchasing any bonds. See “Risk Factors.”

SUMMARY FINANCIAL AND OTHER INFORMATION OF GERDAU

The following table sets forth Gerdaу's summary financial information, presented in Brazilian *reais* and prepared in accordance with IFRS.

The summary financial data as of September 30, 2009, and for the nine month period ended September 30, 2009 and 2008 have been derived from the Company's unaudited interim condensed consolidated financial statements which are included elsewhere in this offering memorandum. The summary financial data as of December 31, 2008, 2007 and 2006 and each of the three years in the period ended December 31, 2008 have been derived from the Company's audited consolidated financial statements appearing in the Company's 2008 Annual Report, on Form 20-F, as amended, incorporated by reference in this offering memorandum.

The Company has not included any financial statements for the Issuer in this offering memorandum. The Issuer will not publish financial statements.

The summary financial information below should be read in conjunction with "Recent Developments" and "Presentation of Financial and Other Information" and the Company's consolidated financial statements incorporated by reference to its 2008 Annual Report and included elsewhere in this offering memorandum.

	For the nine month period ended September 30,		For the year ended December 31,		
	2009	2008	2008	2007	2006
	(in thousands of Brazilian reais)				
Income Statement Selected Information					
Net sales.....	20,177,204	32,488,191	41,907,845	30,613,528	25,883,911
Cost of sales	(17,078,552)	(23,285,318)	(31,018,946)	(23,133,902)	(19,039,266)
Gross profit	3,098,652	9,202,873	10,888,899	7,479,626	6,844,645
Selling expenses	(450,018)	(495,911)	(688,640)	(618,938)	(557,045)
Impairment of assets.....	(1,222,897)	--	--	--	--
General and administrative expenses	(1,321,168)	(1,717,901)	(2,284,857)	(1,884,405)	(1,784,865)
Other operating income	148,201	121,165	205,676	110,721	255,194
Other operating expenses.....	(109,487)	(40,887)	(116,064)	(282,679)	(291,357)
Equity in earnings (losses) of unconsolidated companies, net.....	(115,398)	237,567	122,808	118,399	243,550
Operational income before financial income (expenses) and taxes.....	27,885	7,306,906	8,127,822	4,922,724	4,710,122
Financial income	311,585	320,478	484,046	810,137	939,484
Financial expenses.....	(1,035,558)	(1,106,443)	(1,620,782)	(1,202,027)	(903,292)
Exchange variations, net.....	1,029,363	(453,926)	(1,035,576)	723,289	329,633
Gains and losses on derivatives, net ..	9,962	(43,041)	(62,396)	1,170	74,467
Income before taxes	343,237	6,023,974	5,893,114	5,255,293	5,150,414
Income and social contribution taxes					
Current.....	(270,366)	(1,686,470)	(1,423,660)	(872,315)	(906,297)
Deferred.....	288,178	296,305	475,444	(80,012)	17,361
Net income.....	361,049	4,633,809	4,944,898	4,302,966	4,261,478
Attributed to:					
Parent company's interest	375,403	3,705,115	3,940,505	3,549,881	3,546,934
Non-controlling interests	(14,354)	928,694	1,004,393	753,085	714,544
	361,049	4,633,809	4,944,898	4,302,966	4,261,478

	As of September 30,		As of December 31,		
	2009	2008	2008	2007	2006
(in thousands of Brazilian reais)					
Statement of financial position selected information					
Cash and cash equivalents	2,647,787	3,181,405	2,026,609	2,026,096	1,070,524
Short-term investments (1)	2,700,028	2,367,967	3,386,637	3,113,277	5,308,765
Current Assets	14,951,525	21,989,937	20,775,540	15,312,973	15,083,956
Current Liabilities.....	5,327,761	9,904,228	8,475,437	6,587,148	6,191,420
Net working capital (2).....	9,623,764	12,085,709	12,300,103	8,725,825	8,892,536
Property, plant and equipment, net	17,114,144	17,783,532	20,054,747	15,827,944	13,373,543
Total assets	45,932,004	54,809,128	59,050,514	41,553,912	31,596,256
Short-term debt (including "Current Portion of Long-Term Debt").....	1,959,018	3,076,319	3,788,085	2,500,985	2,274,523
Long-term debt, less current portion	13,387,983	15,009,140	18,595,002	12,461,128	6,671,456
Debentures - short term	167,604	167,756	145,034	38,125	2,932
Debentures - long term	562,870	758,317	705,715	903,151	929,024
Equity attributable to the equity holders of the parent.....	18,050,659	19,221,543	20,166,502	12,780,021	10,631,282
Capital	14,184,805	14,184,805	14,184,805	7,810,453	7,810,453

(1) Includes trading, available for sale and held to maturity investments.

(2) Total current assets less total current liabilities.

	For the nine month period ended September 30,		For the year ended December 31,		
	2009	2008	2008	2007	2006
Other Selected Financial and Operating Information	(in thousands of Brazilian reais, unless otherwise indicated)				
Cash Flow Data:					
Cash flows from operating activities.....	5,132,624	2,489,175	3,635,344	6,437,835	2,686,464
Cash flows from investing activities.....	(723,983)	(4,435,680)	(6,560,645)	(11,164,783)	(2,554,581)
Cash flows from financing activities.....	(3,500,686)	3,023,485	2,599,958	6,070,269	(142,301)
Operating Data (in thousand tons):					
Consolidated shipments.....	10,316	15,612	19,118	17,159	14,890
Total production of long rolled steel(1).....	8,562	13,768	16,440	15,160	12,803
Total production of slabs, billets and blooms(1).....	9,673	16,336	19,599	17,907	15,767
Other Information:					
Capital expenditures.....	1,187,977	4,661,531	6,817,219	11,282,824	3,043,111
Depreciation and amortization.....	1,318,601	1,265,457	1,896,076	1,317,156	1,136,950
Adjusted EBITDA and ratios:					
Net Income.....	361,049	4,633,809	4,944,898	4,302,966	4,261,478
(+) Financial results (financial expense, financial income, exchange variations, net and gains and losses on derivatives, net).....	(315,352)	1,282,932	2,234,708	(332,569)	(440,292)
(+) Income and social contribution taxes.....	(17,812)	1,390,165	948,216	952,327	888,936
(+) Depreciation and amortization.....	1,318,601	1,265,457	1,896,076	1,317,156	1,136,950
(+) Impairment of assets.....	1,222,897	-	-	-	-
(=) Adjusted EBITDA(2).....	<u>2,569,383</u>	<u>8,572,363</u>	<u>10,023,898</u>	<u>6,239,880</u>	<u>5,847,072</u>
Total Debt (4).....	16,077,475	19,011,532	23,233,836	15,903,389	9,877,935
Interest Expenses (12-month period).....	(1,660,191)	(1,712,146)	(1,803,188)	(1,321,791)	(933,903)
Total Debt (4)/Adjusted EBITDA(2)(5).....	4.00	1.90	2.32	2.55	1.69
Adjusted EBITDA(2)/Interest Expenses (12-month period)(6).....	2.42	5.95	5.56	4.72	6.26
Current liquidity ratio (3).....	2.81	2.22	2.45	2.32	2.44

(1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products is sold directly to external customers and the remainder used in the rolling process.

(2) Adjusted EBITDA is equal to net income, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on derivatives (net), plus provision for income taxes, plus depreciation and amortization, plus impairment of assets. Adjusted EBITDA is not a measure of financial performance calculated in accordance with IFRS and management believes EBITDA should not be construed as an alternative to net income determined in accordance with IFRS, as a performance indicator or as an alternative to cash flows from operations as a measure of liquidity and cash flows. Adjusted EBITDA does not have standardized meaning and our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. However, because Adjusted EBITDA does not account for certain costs intrinsic to our business, which could, in turn, materially affect our profits, such as financial expenses, taxes, depreciation, capital expenditures and other related charges, Adjusted EBITDA presents limitations that affect its use as a measure of our profitability. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. Gerdau believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations. Net income is the most directly comparable GAAP measure.

(3) Current liquidity ratio consists of current assets divided by current liabilities derived from the Company's consolidated financial statements prepared in accordance with IFRS.

(4) Includes short-term and long-term debt and debentures.

(5) The ratio of Total Debt to Adjusted EBITDA is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using Total Debt

as of September 30, 2009 and 2008 and Adjusted EBITDA for the twelve month period ended as of September 30, 2009 and September 30, 2008. For more information on the ratios for September 30, 2009, see “Recent Developments—Liquidity and Capital Resources—Covenant Restructuring” on page 30.

- (6) The ratio of Adjusted EBITDA to Interest Expense is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using the Adjusted EBITDA for the twelve month period ended as of September 30, 2009 and September 30, 2008 and Interest Expense (including financial expenses; gains and losses on derivatives, net; and capitalized interest and financial charges) for the twelve month period ended as of September 30, 2009 and September 30, 2008. For more information on the ratios for September 30, 2009, see “Recent Developments—Liquidity and Capital Resources—Covenant Restructuring” on page 30.

RISK FACTORS

Prospective purchasers of bonds should carefully consider the risks described below and those described in Gerdau's 2008 Annual Report, incorporated by reference in this offering memorandum, as well as the other information in this offering memorandum, before deciding to purchase any bonds. The Company's business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of the bonds could decline and you could lose all or part of your investment.

Risks Relating to the Bonds

Securities Laws Will Restrict Your Ability to Transfer the Bonds.

The bonds have not been registered under the Securities Act and applicable state securities laws and will be subject to transfer restrictions in order to ensure compliance with federal and state securities laws. You may not sell the bonds in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The bonds and the indenture will contain provisions that will restrict the bonds from being offered, sold or otherwise transferred except pursuant to certain exemptions under the Securities Act.

An Active Trading Market for the Bonds May Not Develop.

The bonds constitute a new issue of securities, for which there is no existing market. The Company cannot provide you with any assurances regarding the development of a market for the bonds, the ability of holders of the bonds to sell their bonds, or the price at which such holders may be able to sell their bonds.

Accordingly the Company cannot assure you that an active trading market for the bonds will develop or, if a trading market develops, that it will continue. The lack of an active trading market for the bonds would have a material adverse effect on the market price and liquidity of the bonds. If a market for the bonds develops, the bonds may trade at a discount from their initial offering price.

Judgments of Brazilian Courts Enforcing the Company's and the Other Guarantors' Obligations Under the Bonds Would Be Payable Only in reais.

If proceedings were brought in Brazil seeking to enforce the Company's and the other Guarantors' obligations under the bonds, neither the Company nor the other Guarantors would be required to discharge its or their obligations, as the case may be, in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation to pay amounts denominated in a currency other than Brazilian currency, which is payable in Brazil, may only be satisfied in Brazilian currency at the exchange rate prevailing on the market on the date of payment, as published by the Central Bank. Accordingly, if the Company or any of the other Guarantors were to be declared bankrupt, all the Company's or such other Guarantor's credits denominated in foreign currencies would be converted into *reais* at the prevailing rate on the date of the declaration.

Payments on the Bonds and the Guarantees will be Junior to Any Secured Debt Obligations of the Issuer and the Guarantors, as the case may be, and Effectively Junior to Debt Obligations of Any Non-Guarantor Subsidiaries.

Gerdau S.A. and Gerdau Holdings Inc. are holding companies that engage in operations through their subsidiaries. As a result, their ability to service their debt, including Gerdau S.A.'s guarantee of the bonds, is dependent upon the cash flows of their subsidiaries. All of the Gerdau S.A.'s principal Brazilian operating subsidiaries are also guaranteeing the bonds but some of its other subsidiaries, including Gerdau Ameristeel, are not guaranteeing the bonds. Claims of creditors of Gerdau S.A.'s non-guarantor subsidiaries and non-guarantor subsidiaries of the other Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over Gerdau S.A.'s and the other Guarantors' creditors claims. Accordingly, the bonds will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Gerdau S.A. or the other Guarantors' non-guarantor

subsidiaries. The indenture does not require Gerdau S.A.'s future subsidiaries to guarantee the bonds, and it does restrict a Guarantor from disposing of its assets to a third party or Gerdau S.A.'s subsidiary or such Guarantor that is not guaranteeing the bonds.

The indenture governing the bonds will permit the incurrence of additional debt, some of which may be secured debt.

If the Issuer or any of the Guarantors becomes insolvent or is liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the lender will have priority over any claim for payment under the bonds to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the bonds could be satisfied. Further, if any assets did remain after payment of these lenders, the remaining assets might be insufficient to satisfy the claims of the holders of the bonds and holders of other unsecured debt that is deemed the same class as the bonds, and potentially all other general creditors who would participate ratably with holders of the bonds.

As of September 30, 2009, the Issuer had no consolidated indebtedness. As of September 30, 2009, the Company had approximately US\$9,042 million of consolidated indebtedness. Approximately US\$90 million of this total amount was structurally senior to the bonds being sold in this offering, including US\$89 million of the Company and the other Guarantors' secured debt and US\$1 million of the Company's and the other Guarantors' non-guarantor subsidiaries' debt, including trade payables.

The Obligations of the Guarantors under the Guarantees are Subordinated to Certain Statutory Liabilities.

Under Brazilian law, the obligations of the Guarantors under the bonds, the guarantees and the indenture are subordinated to certain statutory preferences. In the event of the bankruptcy of any of the Guarantors, according to the Brazilian bankruptcy law, such statutory preferences, such as certain claims for salaries and wages to a certain limit, social security and other taxes, court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the bonds.

USE OF PROCEEDS

The net proceeds from the sale of the bonds, which equal US\$1,221,250,000, will be made available to the Company and its subsidiaries, to be used by the Company and its subsidiaries to repay part of their indebtedness (which may include indebtedness owed to one or more of the initial purchasers), extending their debt maturity profile.

EXCHANGE RATES

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably. Until early 2003, the value of the *real* declined relative to the U.S. dollar. The *real* appreciated against the U.S. dollar in 2004-2007. In 2008, as a result of the aggravation of the global financial and economic crisis, the *real* depreciated 32% against the U.S. dollar, and on December 31, 2008 the exchange rate between the *real* and the U.S. dollar was R\$ 2.33 to US\$1.00. On January 27, 2010, the exchange rate between the *real* and the U.S. dollar was R\$ 1.851 to US\$1.00.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

The following table sets forth the commercial selling rate, expressed in *reais* per U.S. dollar, for the periods indicated.

Year ended	Low	High	Average(1)	Period-end
2004	2.654	3.205	2.925	2.654
2005	2.163	2.762	2.412	2.341
2006	2.059	2.371	2.177	2.138
2007	1.733	2.156	1.944	1.771
2008	1.559	2.500	1.837	2.337
2009	1.702	2.422	1.994	1.741
Month ended	Low	High	Average	Period-end
January 2009	2.189	2.380	2.307	2.316
February 2009	2.245	2.392	2.318	2.378
March 2009	2.238	2.422	2.330	2.315
April 2009	2.170	2.290	2.230	2.178
May 2009	1.973	2.147	2.061	1.973
June 2009	1.930	2.007	1.959	1.952
July 2009	1.873	2.015	1.933	1.873
August 2009	1.818	1.886	1.845	1.886
September 2009	1.778	1.904	1.820	1.778
October 2009	1.704	1.784	1.738	1.744
November 2009	1.702	1.759	1.726	1.751
December 2009	1.710	1.788	1.750	1.741
January 2010 (through January 27, 2010)	1.723	1.851	1.770	1.851

(1) Represents the daily average of the close exchange rates during the period.

CAPITALIZATION OF GERDAU

The following table sets forth Gerdau's consolidated capitalization at September 30, 2009 on an historical basis and as adjusted for this offering of US\$1,250,000,000 bonds to give effect to this offering. Except as otherwise disclosed herein, there has been no material change to the capitalization of Gerdau since September 30, 2009. This table should be read in conjunction with, and is qualified in its entirety by reference to, the Company's unaudited condensed consolidated interim financial statements and the notes thereto included elsewhere in this offering memorandum.

	Actual	As adjusted for this offering
	(in thousands of Brazilian <i>reais</i>)	
Debt:		
Current debt:		
Short-term debt and current portion of long-term debt.....	1,959,018	1,643,798
Debentures.....	167,604	167,604
Dividends Payable.....	40,818	40,818
Long-term debt:		
Long-term debt, less current portion.....	13,387,983	11,531,698
Bonds offered hereby (aggregate principal amount)(1).....	-	2,222,625
Debentures.....	562,870	562,870
Equity:		
Capital.....	14,184,805	14,184,805
Treasury stocks.....	(127,387)	(127,387)
Legal reserve.....	144,062	144,062
Stock option compensation plan.....	6,781	6,781
Retained earnings.....	5,418,942	5,418,942
Other consolidated comprehensive income.....	(1,576,544)	(1,576,544)
Equity attributable to the equity holders of the parent.....	18,050,659	18,050,659
Non-controlling interests.....	3,994,961	3,994,961
Equity.....	22,045,620	22,045,620
Total debt and shareholders' equity(2).....	38,163,913	38,215,033

(1) The proceeds of the offering were translated using the commercial selling rate as reported by the Central Bank as of September 30, 2009 of R\$ 1.7781 per U.S. dollar.

(2) Defined as short-term and long-term debt (including the bonds offered hereby) and debentures, including total shareholders' equity

As of the date of this offering memorandum, the Issuer has no consolidated indebtedness.

RECENT DEVELOPMENTS

Overview

The year 2009 has been characterized by sharp contraction in demand and credit, leading to a generalized reduction in inventories throughout the entire chain and a strong decline in capacity utilization at steel plants. In order to respond to this environment, the Company has taken several initiatives to adapt its cost structure, administrative expenses and production to the new scenario. Among these measures the Company can highlight working capital reduction, postponement of the investment program, fixed and variable cost reduction, mills stoppages and anticipation of mill maintenance. The productivity and cost reduction related initiatives implemented during the first nine months of this year continue to be followed throughout the organization and are yielding satisfactory results, which can be seen through the improvements in the Company's results in the third quarter 2009 compared to the second quarter 2009. The economic recovery in several regions added to the governmental stimulus worldwide is expected to lead to the gradual increase in steel consumption.

In the third quarter of 2009, world steel production showed signs of a gradual recovery, with world steel output of 317 million tonnes in such period, a growth of 11% compared to the second quarter of 2009. In the same period, China, the world's largest steel market, had growth of 11% in its steel production, which reached 154 million tonnes in the third quarter of 2009 according to World Steel Association, which we refer to as the "WSA."

The WSA recently projected that world steel consumption in 2009 would be 1.1 billion tonnes, with a total installed capacity of approximately 1.8 billion tonnes. Thus, there is 700 million tonnes of excess steel capacity in the world, most of which is located in the western hemisphere. China, the world's largest steel market, consumes most of its domestic steel production. In 2009, Brazil's domestic demand served by local steel production is expected to be 19 million tonnes, as compared to the country's installed capacity of 42 million tonnes. Gerdau's production and sales have recovered to varying degrees, depending on the geographic region.

In 2009, the Company was able to achieve reductions in costs and in working capital requirements, as well as a reduction in its debt level, while maintaining high liquidity. The main developments include:

- Throughout the first half of the year, Gerdau concentrated its efforts on lowering production costs, generating savings of R\$ 2.4 billion in the period, and also wrote down its inventories in response to the overall reduction of steel prices. These efforts were reflected in the Company's results for the third quarter of 2009. Even with sales growth in the third quarter of 15% over the second quarter of 2009, the Company had a 5% decrease in the cost of goods sold over the same period.
- Selling, general and administrative expenses (such as consulting expenses, the wages of workers not directly involved in production, investments in marketing, travel and other items) decreased 14% in the third quarter of 2009, declining from R\$ 604 million in the second quarter of 2009 to R\$ 520 million in the third quarter of 2009.
- Working capital (represented by accounts receivable from clients, plus inventories, less suppliers) was R\$ 7.1 billion in September 2009, representing a decline of R\$ 431 million in relation to June 2009.
- Cash, cash equivalents and short-term investments totaled R\$ 5.4 billion on September 30, 2009, of which 40.6% was held by Gerdau's subsidiaries abroad, mainly in U.S. dollars. Cash, cash equivalents and short-term investments at September 30, 2009 decreased by 14% from June 30, 2009, but only decreased 3% from R\$ 5.6 billion on December 31, 2008.
- Net debt decreased by 16% to R\$ 10.7 billion at September 30, 2009 from June 30, 2009, and decreased by 40% from December 31, 2008.

- Consolidated crude steel production increased 30% from 3.1 million tonnes in the second quarter of 2009 to 4.0 million tonnes in the third quarter of 2009.
- EBITDA increased 131% in the third quarter of 2009 to R\$ 1.4 billion from R\$ 595 million in the second quarter of 2009. EBITDA margin (the ratio of EBITDA to net revenue) was 20% in the third quarter of 2009, compared with 9% in the previous quarter.
- Net Income was R\$ 655 million in the third quarter of 2009. Excluding nonrecurring items and net of income tax of R\$ 90 million, net income was R\$ 745 million in the third quarter of 2009. In the nine month period ending September 30, 2009, Gerdau posted net income of R\$ 361 million, reversing the net loss due to accounting impacts booked in the second quarter of the year. Based on the results reported nine months ended September 30, 2009, Gerdau decided on November 5, 2009 to pay dividends in the form of interest on equity.
- Investments in fixed assets in the third quarter of 2009 were R\$ 232 million, of which 67% was invested in Brazil and 33% abroad. In the nine months ended September 30, 2009, these disbursements totaled R\$ 1.1 billion.

The government incentives to stimulate economic growth in various countries, combined with the continued recovery in financial markets and confidence, are expected to support continued improvement in demand over the course of 2010. In October 2009, the International Monetary Fund announced an upward revision in its forecast for world GDP growth in 2010, from 2.5% to 3.1%. The International Monetary Fund also forecast GDP growth in the United States and Brazil in 2010 of 1.5% and 3.5%, respectively.

Seasonality

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 Specialty Steel Operations, particularly in Spain, the third quarter is traditionally marked by collective vacations that reduce operations in the quarter to only two months.

Recent Production Trends

Consolidated shipments increased 14.7%, from 3.4 million tonnes in the second quarter of 2009 to 3.9 million tonnes in the third quarter of 2009. This expansion shows a gradual recovery in demand in all regions, mainly Brazil, as well the replacement of inventories across the chain, especially in the United States. The increase of shipments in the third quarter of 2009 compared to the second quarter of 2009, provided a greater dilution of fixed costs and consequently improved our gross margin, from 12.5% to 22.1%.

Brazil Operations shipments increased 25.0% from 1.2 million tonnes in the second quarter of 2009 to 1.5 million tonnes in the third quarter of 2009. This growth represented the main contributor to the gross margin increase from 28.6% to 34.4%, signaling a recovery in demand in all segments in which Gerdau sells its products.

North American Operations shipments increased from 1.2 million tonnes in the second quarter of 2009 to 1.4 million tonnes in the third quarter of 2009, an increase of 13.8%, signaling an improvement in demand, mainly due to replacement of inventories. North American Operation improved its gross margin from 6.3% in the second quarter of 2009 to 13.2% in the third quarter of 2009, mostly as an improvement in shipments and the resulting increased fixed cost dilution.

Latin American Operations shipments increased from 507 thousand tonnes in the second quarter of 2009 to 537 thousand tonnes in the third quarter of 2009, an increase of 5.9%. The gross margin in the third quarter of 2009

grew to 11.2% from a negative margin of 2.7% in the second quarter of 2009, benefiting from the writedowns of inventories during the previous quarters of 2009 and from improvement in shipments.

Specialty Steel Operation shipments increased 13.1% from 420 thousand tonnes in the second quarter of 2009 to 475 thousand tonnes in the third quarter of 2009, positively impacted by government programs in the United States and a tax reduction in Brazil. The gross margin in the third quarter of 2009 grew to 16.3% from 0.2% in the second quarter of 2009.

Results of Operations for the Nine-Month periods ended September 30, 2009 and 2008

The following table sets forth Gerdau's summary financial information, presented in Brazilian *reais* and prepared in accordance with the IFRS.

The summary financial data as of September 30, 2009 and September 30, 2008 and for the nine months ended September 30, 2009 and 2008 have been derived from the Company's unaudited condensed consolidated interim financial statements which are included elsewhere in this offering memorandum.

	For the nine month period ended September 30,	
	2009	2008
	(in thousands of Brazilian reais)	
Income Statement Selected Information		
Net sales.....	20,177,204	32,488,191
Cost of sales.....	(17,078,552)	(23,285,318)
Gross profit.....	3,098,652	9,202,873
Selling expenses.....	(450,018)	(495,911)
General and administrative expenses.....	(1,321,168)	(1,717,901)
Impairment of assets.....	(1,222,897)	-
Other operating income.....	148,201	121,165
Other operating expenses.....	(109,487)	(40,887)
Equity in earnings (losses) of unconsolidated companies, net...	(115,398)	237,567
Operational income before financial income (expenses) and taxes.....	27,885	7,306,906
Financial income.....	311,585	320,478
Financial expenses.....	(1,035,558)	(1,106,443)
Exchange variations, net.....	1,029,363	(453,926)
Gains and losses on derivatives, net.....	9,962	(43,041)
Income before taxes.....	343,237	6,023,974
Income and social contribution taxes		
Current.....	(270,366)	(1,686,470)
Deferred.....	288,178	296,305
Net income for the period.....	361,049	4,633,809
Attributed to:		
Parent company's interest.....	375,403	3,705,115
Non-controlling interests.....	(14,354)	928,694
	361,049	4,633,809

Results of Operations for the Nine Month Period Ended September 30, 2009 Compared with the Nine Month Period Ended September 30, 2008

The following analysis refers to the consolidated results of Gerdau. Information on the Company's operating segments can be found below under "—Gerdau Operating Segments."

Net Sales

The Company's net sales totaled R\$ 20,177.2 million in the first nine months of 2009, 37.9% less than in the same period of 2008 (R\$ 32,488.1 million). Of this amount, 37.4% (R\$ 7,555.7 million) came from the Brazil Operation, 32.9% (R\$ 6,640.5 million) from the North American Operation, 12.3% (R\$ 2,487.0 million) from the Latin American Operation and 17.3% (R\$ 3,494.0 million) from the Specialty Steel Operation. This performance is a result of the 33.9% decrease in the shipments from 15.6 million tonnes in the first nine months of 2008 to 10.3 million tonnes in the same period of 2009 and of lower prices in the international market. The net sales price per tonne in the first nine months of 2009 was R\$ 1,955.9/tonne, a 6.0% decrease from R\$ 2,081.0/tonne in the same period of 2008.

The reduction in shipments and prices were due mainly to weaker demand in all the regions in which the Company operates, a consequence of the international recession since the last quarter of 2008.

Gerdau Consolidated Net Sales	Nine month period ended September 30,		Variation
	<u>2009</u>	<u>2008</u>	<u>2009/2008</u>
	(in millions of Brazilian reais)		
Brazil	7,556	11,144	(32.2%)
North America	6,641	11,823	(43.8%)
Latin America	2,487	3,510	(29.1%)
Specialty Steel	3,494	6,011	(41.9%)
Consolidated Total.....	<u>20,177</u>	<u>32,488</u>	(37.9%)

Cost of Sales and Gross Profit

Cost of sales decreased 26.7% from R\$ 23,285.3 million in the first nine months of 2008 to R\$ 17,078.6 million in the same period of 2009. This decrease was due to lower shipments in the period, which reduced the dilution of fixed costs, but was partially offset by the increase of the cost of sales per tonne. The adjustment of production to the lower level of demand and the inventory writedowns, mostly in the operations outside Brazil, also negatively impacted the cost of sales, mainly during the first half of 2009. Given the 37.9% decrease in net sales versus the 26.7% decrease in cost of sales during the nine month period ended September 30, 2009, gross margin compressed to 15.4% in the first nine months of 2009, from 28.3% in the same period of 2008. Gross profit decreased 66.3% from R\$ 3,098.7 million in the first nine months of 2009, compared to R\$ 9,202.9 million in 2008.

Operating Expenses

Operating expenses (selling expenses, general and administrative expenses) decreased 20.0% from R\$ 2,213.8 million in the first nine months of 2008 to R\$ 1,771.2 million in the first nine months of 2009, mainly due to the reduction in shipments and the reduction of expenses during the crisis. The ratio of selling and marketing plus general and administrative expenses to net sales was 8.8% compared to 6.8% in the first nine months of 2008. Cost cutting efforts made during 2009 are evidenced by a lower ratio of selling and marketing plus general and administrative expenses to net sales of 7.6% in the third quarter of 2009 compared to 9.4% in the second quarter of 2009.

Other Operating Income

During the first nine months of 2009, other operation income (expenses), net totaled R\$ 38.7 million, a decrease of 51.8% over the same period of 2008 (R\$ 80.3 million), primarily due to a decrease in shipments from our Brazilian operations.

Impairment of Assets

During the first nine months of 2009, the Company has been monitoring indicators of asset deterioration and applying impairment tests whenever necessary. These tests are based on the prospects of a global economic recession in 2009 that has led to deterioration in steel assets. We have been using the discounted cash flow methodology, in which important assumptions are made for discount rates, growth rates, perpetuity, working capital, investment plans and expected cash flows that could substantially influence the Company's results.

Losses identified in the first nine months of 2009 totaled R\$ 1.2 billion, which were mainly generated by downward revisions in expectations for operating results in the North American and Specialty Steel Operations. These losses were classified as follows:

- Fixed assets: R\$ 520.0 million
- Goodwill: R\$ 202.0 million
- Intangible assets: R\$ 304.0 million
- Investments in associates and jointly-controlled entities: R\$ 46.0 million
- Other: R\$ 151.0 million

This impairment effect, net of income tax, negatively impacted the Company's net income in the nine months to September 2009 in the amount of R\$ 882.0 million.

Equity in Earnings (Losses) of Unconsolidated Companies, net

During the first nine months of 2009, equity in losses from unconsolidated companies (all involved in steel production) amounted to R\$ 115.4 million compared to earnings of R\$ 237.6 million in the same period of 2008. This decrease is largely due to the deterioration in the steel market during the first nine months of 2009, which affected the performance of Gerdau's joint ventures and associated companies. During the first nine months of 2009, shipped tons from Gerdau's joint ventures and associated companies decreased 23.6% in comparison to the same period of 2008.

Operational Income Before Financial Income (Expenses) and Taxes

As a result of the foregoing, operating income totaled R\$ 27.9 million in the first nine months of 2009, a decrease of 99.6% when compared to R\$ 7,306.9 million in the same period of 2008.

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

In the first nine months of 2009, net financial income (which consists of financial income, financial expenses, foreign exchange gains and losses and gains and losses on derivatives) totaled R\$ 315.4 million, compared to net financial expense of R\$ 1,282.9 million in the same period of the previous year. This increase is due mainly to the 23.9% appreciation of the *real* against the U.S. dollar in respect of the Company's debt from Brazil in U.S. dollars. The total foreign-currency debt reflected in the financial statements of our Brazilian entities at September 30, 2009 was US\$3.3 billion, of which US\$1.5 billion is related to the acquisitions of companies abroad, whose foreign exchange variation is recorded directly in Equity, in accordance with IFRS. For the remaining US\$1.8 billion, foreign exchange variation is recorded on the income statement. See Item 5 in the Company's 2008 Annual Report for a more detailed discussion of foreign exchange variations.

Exchange gains during the first nine months of 2009 were R\$ 1,029.4 million, compared to an exchange loss of R\$ 453.9 million in the same period of 2008. In the first nine months of 2009 gains on derivatives amounted to R\$ 10.0 million, against a loss on derivatives of R\$ 43.0 million in the same period of 2008.

Provision for Income Taxes

Provision for Income Taxes was positive by R\$ 17.8 million in the first nine months of 2009, compared to R\$ 1,390.2 in the first nine months of 2008. This difference is a consequence of the Company's results for the first nine months of 2009, and the tax benefits usually recognized by the Company.

Net Income

In the first nine months of 2009, consolidated net income amounted to R\$ 361.0 million, a 92.0% decrease over the R\$ 4,633.8 million in the same period of 2008. This decrease was caused by the worsening operational performance during 2009. Net margin (defined as net income divided by net sales) decreased from 14.3% in the first nine months of 2008 to 1.8% in the same period of 2009.

Gerdau Operating Segments

In 2009, the Company's board of directors approved the new governance of the Company, which established a new business segmentation, as follows: Brazil Operations (includes all operations in Brazil, other than specialty steels), North American Operation (includes all operations in North America, except those in Mexico and specialty steels), Latin American Operation (includes all operations in Latin America, except Brazil) and Specialty Steel Operation (including specialty steel operations in Brazil, Europe and the United States). The unaudited condensed consolidated interim financial statements of the Company as of September 30, 2009 and 2008, which are included elsewhere in this offering memorandum, were prepared considering the new business segmentation as disclosed in Note 18 thereto.

Açominas and Long Steel Brazil, previously treated as separate segments, are now reported as a single operating segment since 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 Brazil Operations.

In the first nine months of 2009, Brazil Operation net sales reached R\$ 7,556 million, 32.2% lower than in the same period of 2008, mainly due to weaker demand in the Brazilian market. Shipments were 3.8 million tonnes in the first nine months of 2009, with 2.6 million tonnes sold in the domestic market and the balance exported. Total net sales per tonne decreased 4.1% in the first nine months of 2009 compared to the same period of 2008, caused by lower prices in the international market. Brazil Operation gross margin went from 40.6% in the first nine months of 2008 to 31.7% in the same period of 2009, impacted by lower shipments. Net income reached R\$ 1,720.0 million in the first nine months of 2009, down 25.0% from R\$ 2,148.8 million in the same period of 2008.

North American Operation posted net sales of R\$ 6,640.5 million in the first nine months of 2009, 43.8% lower than in the same period of 2008, mainly due to lower demand in the region. Shipments amounted to 3.7 million tonnes, down 41.9% over the same period of 2008. Total net sales price per tonne decreased 3.3% in the first nine months of 2009 compared to the same period of 2008. North America gross margin declined from 20.4% in the first nine months of 2008 to 7.8% in the same period of 2009. During the first nine months of 2009 the Company had a net loss of R\$ 193.7 million against net income of R\$ 1,273 million in the same period of 2008.

The Latin American Operation, excluding Brazil, posted net sales of R\$ 2,487.0 million in the first nine months of 2009, a decrease of 29.1% from the same period of 2008. Shipments were 1.5 million tonnes in the first nine months of 2009, a decrease of 14.4% from the same period of 2008, reflecting lower demand and lower international prices. Latin American gross margin decreased from 26.1% in the first nine months of 2008 to 0.8% in the same period of 2009. In the first nine months of 2009 there was a net loss of R\$ 437.0 million against net income of R\$ 597.3 million in the same period of 2008.

In the first nine months of 2009, Specialty Steel Operation net sales totaled R\$ 3,494.0 million, 41.9% lower than in the same period of 2008. This decline was a result of the weaker demand in the market, mainly in the United States and Spain, and the resulting lower prices for specialty steel products. Shipments reached 1.3 million tonnes in the first nine months of 2009, a decrease of 37.8% over the same period of 2008. Total net sales price per tonne in the Specialty Steel Operation decreased 6.5% in the first nine months of 2009 compared to the same period of 2008. The gross margin in this operation decreased from 22.5% in the first nine months of 2008 to 4.9% in the same period of 2009, due to weaker demand and lower prices. In the first nine months of 2009 there was a net loss of R\$ 728.3 million against net income of R\$ 614.6 million in the same period of 2008.

Liquidity and Capital Resources

The following table sets forth certain of Gerdau's statement of financial position and cash flow information.

	As of September 30,	
	2009	2008
	(in thousands of Brazilian reais)	
Statement of financial position selected information		
Cash and cash equivalents	2,647,787	3,181,405
Short-term investments (1)	2,700,028	2,367,967
Current Assets.....	14,951,525	21,989,937
Current Liabilities	5,327,761	9,904,228
Net working capital (2).....	9,623,764	12,085,709
Property, plant and equipment, net	17,114,144	17,783,532
Total assets	45,932,004	54,809,128
Short-term debt (including "Current Portion of Long-Term Debt")	1,959,018	3,076,319
Long-term debt, less current portion.....	13,387,983	15,009,140
Debentures - short term.....	167,604	167,756
Debentures - long term	562,870	758,317
Equity attributable to the equity holders of the parent.....	18,050,659	19,221,543
Capital.....	14,184,805	14,184,805

(1) Includes trading, available for sale and held to maturity investments.

(2) Total current assets less total current liabilities.

	For the nine month period ended September 30,	
	2009	2008
(in thousands of Brazilian reais, except where otherwise indicated)		
Other Selected Financial and Operating Information		
Cash Flow Data:		
Cash flows from operating activities	5,132,624	2,489,175
Cash flows from investing activities	(723,983)	(4,435,680)
Cash flows from financing activities	(3,500,686)	3,023,485
Operating Data (in thousand tons):		
Consolidated shipments	10,316	15,612
Total production of long rolled steel(1)	8,562	13,768
Total production of slabs, billets and blooms(1).....	9,673	16,336
Other Information:		
Capital expenditures	1,187,977	4,661,531
Depreciation and amortization.....	1,318,601	1,265,457
Adjusted EBITDA and ratios:		
Net Income for the period.....	361,049	4,633,809
(+) Financial results (financial expense, financial income, exchange variations, net and gains and losses on derivatives, net).....	(315,352)	1,282,932
(+) Income and social contribution taxes	(17,812)	1,390,165
(+) Depreciation and amortization	1,318,601	1,265,457
(+) Impairment of assets	1,222,897	-
(=) Adjusted EBITDA(2).....	<u>2,569,383</u>	<u>8,572,363</u>
Total Debt(4)	16,077,475	19,011,532
Interest Expenses (12-month period)	(1,660,191)	(1,712,146)
Total Debt(4)/Adjusted EBITDA(2)(5)	4.00	1.90
Adjusted EBITDA(2)/Interest Expenses (12-month period)(6).....	2.42	5.95
Current liquidity ratio (3).....	2.81	2.22

- (1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products is sold directly to external customers and the remainder used in the rolling process.
- (2) Adjusted EBITDA is equal to net income, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on derivatives (net), plus provision for income taxes, plus depreciation and amortization, plus impairment of assets. Adjusted EBITDA is not a measure of financial performance calculated in accordance with IFRS and management believes EBITDA should not be construed as an alternative to net income determined in accordance with IFRS, as a performance indicator or as an alternative to cash flows from operations as a measure of liquidity and cash flows. Adjusted EBITDA does not have standardized meaning and our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. However, because Adjusted EBITDA does not account for certain costs intrinsic to our business, which could, in turn, materially affect our profits, such as financial expenses, taxes, depreciation, capital expenditures and other related charges, Adjusted EBITDA presents limitations that affect its use as a measure of our profitability. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. Gerdau believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations. Net income is the most directly comparable GAAP measure.
- (3) Current liquidity ratio consists of current assets divided by current liabilities derived from the Company's consolidated financial statements prepared in accordance with IFRS.
- (4) Includes short-term and long-term debt and debentures.

- (5) The ratio of Total Debt to Adjusted EBITDA is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using Total Debt as of September 30, 2009 and 2008 and Adjusted EBITDA for the twelve month period ended as of September 30, 2009 and September 30, 2008. For more information on the ratios for September 30, 2009, see “—Covenant Restructuring” on page 30.
- (6) The ratio of Adjusted EBITDA to Interest Expense is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using the Adjusted EBITDA for the twelve month period ended as of September 30, 2009 and September 30, 2008 and Interest Expense (including financial expenses; gains and losses on derivatives, net; and capitalized interest and financial charges) for the twelve month period ended as of September 30, 2009 and September 30, 2008. For more information on the ratios for September 30, 2009, see “—Covenant Restructuring” on page 30.

Gerdau’s main source of liquidity is the cash generated by its operating activities. In 2008, given significant acquisitions made by the Company, debt financing became an important source of liquidity. As the Company has not had any material acquisitions in 2009, the Company has met its cash needs for 2009 primarily through a combination of operating cash flow, cash and cash equivalents, short-term investments and newly issued long-term debt instruments.

Cash Flows

Net cash from operating activities amounted to R\$ 5.1 billion in the nine months ended September 30, 2009, an increase of R\$ 2.6 billion in comparison to the nine months ended September 30, 2008. Due to new levels in market demand and consequent production volumes, the Company’s inventories suffered an adjustment causing this expansion in the cash flow.

Cash, cash equivalents and short-term investments totaled R\$ 5.4 billion at September 30, 2009, of which 40.6% was held by the Company’s subsidiaries abroad, mainly in U.S. dollars.

On August 31, 2009, Gerdau Ameristeel redeemed R\$ 764 million in senior notes with an annual coupon of 10.375% and maturity in 2011. The redemption price totaled R\$ 777.8 million, paid with the Company’s cash.

From September 30, 2008 to September 30, 2009 working capital (represented by accounts receivable from clients, plus inventories, less suppliers) decreased by R\$ 4,297.9 million. The decreased was mainly due to the reduction in inventories which was influenced by the reduction in fixed production costs and the foreign-exchange variation in such period.

Indebtedness

The Company’s debt is used to finance investments in fixed assets, including the modernization and technological upgrade of its plants and the expansion of installed capacity, as well as for working capital, acquisitions and, depending on market conditions, short-term financial investments.

The following table profiles the Company's debt at December 31, 2008, 2007 and 2006, and September 30, 2009 (in thousands of Brazilian *reais*):

	As of			
	September 30, 2009	December 31, 2008	December 31, 2007	December 31, 2006
SHORT TERM:	2,126,622	3,933,119	2,539,110	2,277,455
Total short-term debt	1,000,938	1,929,812	1,371,908	1,102,921
Debt denominated in Brazilian <i>reais</i>	130,464	50,643	534,718	73,583
Debt denominated in foreign currency	879,474	1,879,169	837,190	1,029,338
Current portion of long-term debt	958,080	1,858,273	1,129,077	1,171,602
Debentures	167,604	145,034	38,125	2,932
LONG TERM:	13,950,853	19,300,717	13,364,279	7,600,480
Total long-term debt	14,346,063	20,453,275	13,590,205	7,843,058
Debt denominated in Brazilian <i>reais</i>	2,297,511	2,614,764	2,262,186	1,713,274
Debt denominated in foreign currency	12,048,552	17,838,511	11,328,019	6,129,784
Current portion of long-term debt	(958,080)	(1,858,273)	(1,129,077)	(1,171,602)
Debentures	562,870	705,715	903,151	929,024
TOTAL DEBT:	16,077,475	23,233,836	15,903,389	9,877,935
Short-term and long-term investments, restricted cash, cash and cash equivalents	5,405,450	5,490,809	5,139,373	6,379,289
NET DEBT(1)	10,672,025	17,743,027	10,764,016	3,498,646

(1) The calculation of net debt is made by subtracting short-term investments, restricted cash, cash and cash equivalents from total debt.

Total debt amounted to R\$ 16.1 billion on September 30, 2009, of which 13.2% was short-term debt (R\$ 2.1 billion) and 86.8% was long-term debt (R\$ 14.0 billion). In the third quarter of 2009, the Company reduced its indebtedness by R\$ 2.8 billion, reflecting payments and exchange rate variation in the period.

On September 30, 2009, the total debt breakdown was 19.6% in Brazilian *reais*, 36.6% in foreign currency contracted by Brazilian companies and 43.7% in different currencies contracted by subsidiaries abroad.

Total long-term debt excluding the current portion (R\$ 958.1 million) and including debentures (R\$ 562.9 million) amounted to R\$ 14.0 billion on September 30, 2009. Of the total long-term debt (R\$ 14.0 billion), R\$ 2.3 billion was denominated in Brazilian *reais* and R\$ 12.0 billion in foreign currency.

On September 30, 2009, the maturity profile of the Company's long-term debt, including debentures, was as follows:

Gerdau S.A. Consolidated	
Long-Term Amortization	(R\$ million)
2010 (from September to December) ..	599
2011	2,603
2012	3,861
2013	1,727
2014 and After	5,161
Total	13,951

Financial Agreements

For a more detailed description of the Company's financial agreements see the description of financial agreements contained in the Company's 2008 Annual Report, which is incorporated by reference herein.

Senior Liquidity Facility

On November 1, 2006, the Company entered into a Senior Liquidity Facility aimed at improving its liquidity and better managing its exposure to market risks. This facility helped the Company to minimize its exposure to lower liquidity in financial and capital markets and was part of a Liability Management Program implemented by the Company at that time. The US\$400.0 million facility is available to Gerdau's subsidiary GTL Trade Finance Inc. and is guaranteed by the Company, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The facility has an availability period of three years and a two-year payment period as of the effective disbursement date. Costs in connection with the facility are a maintenance fee of 0.27% per annum and interest which accrues at the rate of LIBOR + 0.30% to 0.40% per annum when actually drawn. As of December 31, 2008, no amounts have been drawn under this facility. This facility was scheduled to expire in November, 2009, but was voluntarily cancelled on August 14, 2009.

NEXI I

On November 30, 2004, the Company, through Gerdau Açominas, entered into a US\$240.0 million financing agreement. ABN AMRO Bank led and structured the transaction which was funded by ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi Ltd. and UFJ Bank Limited. The tenor of the loan is seven years with a grace period of two years and five years amortization. NEXI covers 97.5% of the political risk and 95.0% of the commercial risk of the loan. The interest rate payable is LIBOR + 0.5% per annum with semi-annual amortization. This financing agreement was voluntarily prepaid on May 29, 2009 and is no longer outstanding.

Senior Notes

On June 27, 2003, Gerdau Ameristeel refinanced most of its outstanding debt by issuing US\$405.0 million in 10 3/8% Senior Notes with maturity on July 15, 2011 and a discount of 2% from face value. Gerdau Ameristeel has the right to call these senior notes at any time at a redemption price that ranges from 105 3/8% to 100%, depending on the year the call is made. The Senior Notes were voluntarily redeemed by Gerdau Ameristeel on August 31, 2009.

4131-type Agreements

On May 27, 2009, Gerdau Açominas entered into a US\$150.0 million loan agreement with Banco Bradesco S.A. The facility is guaranteed by the Company, bears a fixed interest rate of 8.50% per annum and has a total tenor of six years. On June 15, 2009, Gerdau Açominas entered into a US\$200.0 million loan agreement with Banco do Brasil S.A. The facility is guaranteed by the Company, bears a fixed interest rate of 7.10% per annum and with total tenor of three years. Both facilities were fully drawn during June 2009. Both transactions were intended to extend the Company's debt maturity profile and proceeds were used to pay down short and medium term debt.

Covenant Restructuring

Overview

Certain of the Company's financial agreements contain certain restrictive covenants in order to allow the creditors under such agreements to monitor the financial condition of the Company.

In the second quarter of 2009 the Company's management, based on projections that took into account the economic crisis and its impact on the steel market worldwide, sensed that there was the possibility that the Company might temporarily breach certain covenants in some debt agreements, at the end of the third or fourth quarters of 2009.

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

It was agreed that the covenant reset would take effect if the Company breached its covenants, which was the case as of September 30, 2009.

Below are brief descriptions of both the financial covenants originally required in the Company's debt agreements as well as the temporary reset financial covenants. All covenants described below are calculated based on the IFRS Consolidated Financial Statements of Gerdau, except item (iv), which is calculated by reference to the stand-alone financial statements of Metalúrgica Gerdau S.A. in accordance with Brazilian GAAP, as described below.

Original Covenants:

- (i) Consolidated Interest Coverage Ratio – measures the interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that EBITDA for the last 12 months should represent at least 3 times the interest expense of the same period. As of September 30, 2009 such ratio was 2.4 times;
- (ii) Consolidated Leverage Ratio – measures the level of gross debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio requires that the gross debt should not surpass 4 times EBITDA for the last 12 months. As of September 30, 2009 such ratio was 4.0 times;
- (iii) Required Minimum Net Worth – measures the minimum net worth required in financial agreements. The covenant requires that the Net Worth must be greater than R\$ 3,759.2 million. As of September, 2009 such level was R\$ 22,045.6 million; and
- (iv) Current Ratio – measures the Company's ability to meet its short term obligations. The contractual ratio requires that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of September 30, 2009 the current ratio was 1.1 times.

Due to non-compliance with the original financial covenant described in item (i) above, commencing September 30, 2009, the temporary covenant reset become effective through September 30, 2010, as described below.

Reset Covenants:

Items (i) and (ii) above are temporarily substituted from September 30, 2009 until September 30, 2010 by the following:

- (a) Consolidated Interest Coverage Ratio – EBITDA for the last twelve months should represent at least 2.5 times the net interest expense (interest expense minus interest income) of the same period. As of September 30, 2009 such ratio was 3.4;
- (b) Consolidated Leverage Ratio – Net debt (gross debt minus cash and cash equivalents) should not surpass 5 times EBITDA for the last 12 months. As of September 30, 2009 such ratio was 2.7;
- (c) Maximum Gross Debt of US\$11 billion. As of September 30, 2009 such level was US\$8.6 billion.

Legal Proceedings

Tax Contingencies

In 2009, Gerdau and its subsidiaries filed lawsuits relating to the exclusion of the ICMS from the basis of calculation of the PIS and COFINS, as the ICMS should not be deemed as a Company revenue. Gerdau and its subsidiaries have deposited the amounts in dispute (US\$47 million) in escrow with the competent courts.

Also in 2009, Gerdau and its subsidiaries renegotiated certain tax payments, including debts discussed in lawsuits and tax assessments related to PIS, COFINS, IPI and taxes related to social security, and joined the Tax Recovery Program (“Programa de Recuperação Fiscal” – REFIS), created by law 11.941, dated May 27, 2009, which allows the Company to pay these federal tax debts in installments. The total amount estimated for such program is approximately US\$54 million.

Other Proceedings

Since May 15, 2009, Gerdau Açominas, is a party to arbitration proceedings initiated by United Coal Company LCC, which we refer to as “United Coal,” before the American Arbitration Association, in New York. The dispute arises from Gerdau Açominas’ alleged material breaches and/or anticipatory repudiation of a Contract for Sale and Purchase of Coking Coal dated February 26, 2007, as amended. United Coal has asked for damages, estimated to be of approximately US\$100 million. Gerdau Açominas contends that it was United Coal that materially breached the agreement, and asks for an equitable adjustment of the terms of the contract as to price, quantity and schedule for delivery. Gerdau Açominas believes that, in light of certain provisions of the contract, and the *ex aequo et bono* character of the arbitration (arbitration in equity), Gerdau Açominas will obtain a favorable outcome in the proceedings.

Other Recent Developments

Closing of Certain Operations

On June 8, 2009 Gerdau Ameristeel announced the closure of its rolling mill in neighboring Perth Amboy, New Jersey due to lower demand for its products resulting from the downturn in the economy. These actions have occurred gradually over the last months. The Company recorded a R\$71.5 million charge during the three months ended June 30, 2009.

On June 8, 2009, Gerdau Ameristeel announced the suspension of production at its Sayreville, New Jersey steel mill and indicated that it would restart operations when business conditions allowed. The Company has also entered into discussions with the United Steel Workers regarding the potential closure of the Company’s steel mill located in Sand Springs, Oklahoma.

On August 6, 2009 after further evaluation of Gerdau Ameristeel’s markets and production capabilities, the Company decided not to suspend production at the Sayreville mill.

On August 28, 2009 Gerdau Ameristeel reached an idling agreement with the United Steel Workers at the Company’s Sand Springs Mill. The Company identified R\$ 143 million in asset write-offs in the North America Business Operation (R\$ 87 million net of income tax).

Optimization of Capacities

On July 1, 2009 following the gradual improvement in domestic and foreign demand, Gerdau announced the resumption of operations at blast furnace 1 of its Ouro Branco unit, which had been under maintenance since December 2008. The more favorable prospects in the international market led the Company to also maintain blast furnace 2 operational, though a temporary stoppage of the furnace had been announced in mid-July. Gerdau will gradually raise the furnace’s capacity utilization until the market further stabilizes.

Capital Expenditures Investments

In nine months ended September 30, 2009 the Company invested a total of US\$ 514.7 million in fixed assets. In the third quarter of 2009, investments in fixed assets totaled US\$ 123.3 million. Of this total, 67.6% was allocated to Brazil, with the remaining 32.4% allocated to companies in other countries. A total of US\$ 514.3 million has been disbursed so far this year.

In October 2009, Gerdau resumed the project for the installation of a heavy plates rolling mill in the Ouro Branco unit, marking its entry into Brazil's flat steel sector, with the following characteristics:

- Investment of R\$ 1.75 billion;
- Capacity of 1 million tonnes;
- Use of continuous slab casting, with capacity of 1.5 million tonnes;
- Start up of operations slated for late 2012;
- Supplying the oil, shipping, construction and heavy-equipment sectors in both the domestic market and international markets.

The plan for investments in fixed assets from 2010 to 2014 was revised and is currently estimated at R\$ 9.5 billion, which includes strategic investments in the Ouro Branco unit in the state of Minas Gerais, and in the joint-venture in India.

Focus on Technology and Efficient Operations

The Company believes that continuous focus on technology will allow it to maintain its position as a world class steel producer. Since 2008 through the first nine months of 2009, the Company has invested R\$ 3,681.5 million in additions to property, plant and equipment, particularly for improvements to its mills, refinements to its production processes and technology updates in acquired companies.

During this period, the Company has invested significant amounts in the installation of continuous slab casting at Açominas (Brazil), installation of the new melting shop in Tocancipá (Colombia), installation of block casting at Sidenor (Spain), expansion of capacity at Sidertul's rolling mill and melting shop (Mexico), project for the new finishing-end area in Wilton (USA), new reheating furnace in Midlothian (USA), installation of the block reheating furnace at Siderperú (Peru) and increase in continuous casting speed at Aços Especiais Piratini (Brazil).

DESCRIPTION OF THE BONDS

The Issuer issued the bonds pursuant to an indenture, dated as of November 24, 2009, among the Issuer, the Guarantors, The Bank of New York Mellon as trustee (which term includes any successor as trustee under the indenture) and principal paying agent, transfer agent and registrar (which terms include any successor under the indenture) and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent and Transfer Agent. The Issuer will, under the indenture, appoint a registrar, paying agents and transfer agents, which are identified on the inside back cover page of this offering memorandum. A copy of the indenture, including the form of the bonds, will be available for inspection during normal business hours at the offices of the trustee and any of the other paying agents set forth on the inside back cover page of this offering memorandum. The trustee or any paying agent will also act as transfer agent and registrar in the event that the Issuer issues certificates for the bonds in definitive registered form as set forth in “Form of Bonds—Individual Definitive Bonds.”

This description of bonds is of the material provisions of the bonds and the indenture. You should refer to the indenture for a complete description of the terms and conditions of the bonds and the indenture, including the obligations of the Issuer, Gerdau and the other Guarantors, which we refer to collectively as the “Transaction Parties,” and your rights. The terms and conditions of the indenture are incorporated herein by reference to the Indenture, dated as of November 24, 2009, among Gerdau Holdings Inc., the guarantors named therein, The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A.

You will find the definitions of capitalized terms used in this section under “— Certain Definitions.” For purposes of this section of this offering memorandum, references to (i) the “Issuer” refer only to Gerdau Holdings Inc., a subsidiary of Gerdau S.A., and (ii) “Gerdau” shall mean Gerdau S.A. and not to its subsidiaries.

General

The bonds:

- will have a redemption price at maturity of US\$1,250,000,000;
- will be senior unsecured obligations of the Issuer;
- will be fully and unconditionally guaranteed by Gerdau and certain of its subsidiaries;
- will mature on January 20, 2020;
- will be issued in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof;
- will be represented by one or more registered bonds in global form and may be exchanged for bonds in definitive form only in limited circumstances; and
- will not be required to be registered under the Securities Act.

Interest on the bonds:

- will accrue at the rate of 7.00% per annum;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in U.S. dollars semi-annually in arrears on January 20 and July 20 of each year, commencing on July 20, 2010, until all required amounts due in respect of the bonds have been paid;
- will be payable to the holders of record on January 5 and July 5 immediately preceding the related interest payment dates; and

- will be computed on the basis of a 360 day year comprised of twelve 30 day months.

Principal of, and interest and any additional amounts on, the bonds will be payable, and the transfer of bonds will be registrable, at the office of the trustee, and at the offices of the paying agents and transfer agents, respectively. If the bonds are listed on the Euro MTF, the Issuer will maintain a listing agent, paying agent and transfer agent in Luxembourg for so long as the bonds are so listed.

The indenture limits and restricts the Issuer from taking certain actions or engaging in certain activities or transactions. See “—Covenants—Limitations on the Issuer.” The indenture does not limit the amount of debt or other obligations that may be incurred by the Guarantors or any of Gerdau’s non-guarantor subsidiaries (other than the Issuer). Other than the restrictions on liens described below under “—Covenants—Limitations on Liens,” the indenture does not contain any restrictive covenants or other provisions designed to protect holders of the bonds in the event the Transaction Parties or any non-guarantor subsidiary of Gerdau participates in a highly leveraged transaction or upon a change of control, except as set forth under “—Covenants—Repurchase of Bonds upon a Change of Control.”

The Issuer is entitled, without the consent of the holders, to issue additional bonds under the indenture on the same terms and conditions as the bonds being offered hereby in an unlimited aggregate principal amount, which we refer to as the “Additional Bonds.” The bonds and the Additional Bonds, if any, will be treated as a single class for all purposes of the indenture, including waivers and amendments. Unless the context otherwise requires, for all purposes of the indenture and this “Description of the Bonds,” references to the bonds include any Additional Bonds actually issued.

Guarantees

Gerdau and each other Guarantor will jointly and severally guarantee, on a senior unsecured basis, the due and punctual payment of all amounts due and payable on the bonds (including the payment of additional amounts described under “—Additional Amounts”) when and as the same shall become due and payable. No subsidiary of Gerdau, other than the named Guarantors, is or will be obligated to guarantee the bonds.

Ranking

Bonds

The bonds will constitute direct senior unsecured obligations of the Issuer. The obligations of the Issuer under the bonds will rank at least *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain statutory preferences under applicable law, including labor and tax claims.

The obligations of the Issuer under the bonds will also rank:

- senior in right of payment to any subordinated debt of the Issuer; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of Gerdau’s subsidiaries that are not Guarantors and to secured debt and other secured obligations of Gerdau to the extent of such security.

Guarantees

The obligations of each Guarantor will rank:

- *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain statutory preferences under applicable law, including labor and tax claims;

- senior in right of payment to any subordinated debt of that Guarantor; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor's subsidiaries and to secured debt and other secured obligations of that Guarantor to the extent of such security.

Gerdau S.A. is a holding company. Substantially all of Gerdau's operations are conducted through its subsidiaries. Therefore, Gerdau's ability to service its debt, including the bonds (as Guarantor), is dependent upon the cash flows of Gerdau's operating subsidiaries. Certain laws restrict the ability of Gerdau's subsidiaries to pay dividends or make loans or advances. If these restrictions were applied to subsidiaries (other than those that are Guarantors) then Gerdau would not be able to use the earnings of those subsidiaries to make payments on the bonds.

None of Gerdau S.A.'s subsidiaries (other than the named Guarantors) is guaranteeing the bonds. Claims of creditors of such non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of Gerdau's creditors, including holders of the bonds. Accordingly, the bonds will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Gerdau's non-guarantor subsidiaries. The indenture does not require any existing subsidiaries (other than the named Guarantors) or any future subsidiaries of Gerdau to guarantee the bonds, and it does restrict any Guarantor from disposing of its assets to a third party or a subsidiary of Gerdau that is not guaranteeing the bonds. See "—Covenants."

As of September 30, 2009, Gerdau had approximately US\$9,042 million of consolidated indebtedness. Approximately US\$90 million of this total amount was structurally senior to the bonds being sold in this offering, including US\$89 million of secured debt of Gerdau and the other Guarantors and US\$1 million of debt of Gerdau's and the other Guarantors' non-guarantor subsidiaries, including trade payables.

Early Redemption

The bonds will not be redeemable prior to maturity, except in case of certain tax related events as described below and except as described under "—Covenants—Repurchase of Bonds upon a Change of Control."

The bonds will be redeemable at the option of the Issuer, in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at 100% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto, only if (i) the Issuer has or will become obligated to pay additional amounts as discussed below under "—Additional Amounts" with respect to such bonds in excess of the additional amounts that the Issuer would pay if payments in respect of the bonds were subject to deduction or withholding at a rate of 15% (determined without regard to any interest, fees, penalties or other additions to tax) as a result of any change in, or amendment to, the treaties, laws or regulations of the United States, Brazil or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of the indenture, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. For the avoidance of doubt, for purposes of the preceding sentence, reasonable measures shall include a change of the jurisdiction of incorporation, residence or domicile of the Issuer, or any paying agent. No such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such additional amounts if a payment in respect of such bonds were then due.

Prior to the publication or mailing of any notice of redemption of the bonds as described above, the Issuer must deliver to the trustee an officers' certificate to the effect that the obligations of the Issuer to pay additional amounts cannot be avoided by the Issuer taking reasonable measures available to it. The Issuer will also deliver an opinion of an independent legal counsel of recognized standing stating that the Issuer either would be or should be obligated to pay additional amounts due to the changes in treaties, tax laws or regulations. The trustee will accept this certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (i) and (ii) of the preceding paragraph, in which event it will be conclusive and binding on the holders.

Open Market Purchases

The Issuer, the Guarantors or their respective affiliates may at any time purchase bonds in the open market or otherwise at any price. Any such purchased bonds may be held in treasury or may be resold in compliance with applicable requirements or exemptions under the relevant securities, or other, laws.

Payments

The Issuer will make all payments on the bonds exclusively in U.S. dollars.

The Issuer will make payments of principal and interest on the bonds to the principal paying agent (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the trustee and the other paying agents or to the holders.

The Issuer will make payments of principal to the principal paying agent for distribution to the holders upon surrender of the relevant bonds at the specified office of the trustee or any of the paying agents. The Issuer will pay principal and interest on the bonds to the persons in whose name the bonds are registered at the close of business on the 15th day before the due date for payment. Payments of principal and interest in respect of each bond will be made by the paying agents by U.S. dollar check drawn on a bank in New York City and mailed to the holder of such bond at its registered address. Upon application by the holder to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a bond, such payment may be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Under the terms of the indenture, payment by the Issuer of any amount payable under the bonds on the due date thereof to the principal paying agent in accordance with the indenture will satisfy the obligation of the Issuer to make such payment; *provided, however*, that the liability of the principal paying agent shall not exceed any amounts paid to it by the Issuer, or held by it, on behalf of the holders under the indenture. The Issuer has agreed to indemnify the holders of the bonds in the event that there is a subsequent failure by the trustee or any paying agent to pay any amount due in respect of the bonds in accordance with the bonds and the indenture so that the holders will receive such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the trustee and the paying agents will pay to the Issuer upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer for payment as general creditors. After the return of such monies by the trustee or the paying agents to the Issuer, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

The Issuer shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the bonds plus 1% per annum from and including the date when such amounts were due and through and including the date of payment by the Issuer.

Listing

The Issuer will use commercially reasonable efforts to cause the bonds to be listed on the Euro MTF and to remain so listed so long as the Issuer and the Guarantors do not reasonably believe that doing so would impose burdensome financial reporting or other requirements, or costs relating thereto.

Form, Denomination and Title

The bonds will be in registered form without coupons attached in amounts of US\$100,000 and integral multiples of US\$1,000 in excess thereof.

Bonds sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream Luxembourg. Bonds sold in reliance on Rule 144A will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Bonds represented by the global bonds will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such bonds will therefore settle in immediately available funds. There can be no assurance as to the effect, if any, of settlements in immediately available funds on trading activity in the bonds. Beneficial interests in the global bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg. Except in certain limited circumstances, definitive registered bonds will not be issued in exchange for beneficial interests in the global bonds. See "Form of Bonds — Global Bonds."

Title to the bonds will pass by registration in the register. The holder of any bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive bond issued in respect of it) and no person will be liable for so treating the holder.

Transfer of Bonds

Certificated bonds may be transferred in whole or in part in an authorized denomination upon the surrender of the bond to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new bond to be issued upon exchange of bonds or transfer of bonds will be mailed at the risk of the holder entitled to the bond to such address as may be specified in such request or form of transfer.

Bonds will be subject to certain restrictions on transfer as more fully set out in the indenture. See "Notice to Investors." Transfer of beneficial interests in the global bonds will be effected only through records maintained by DTC and its participants. See "Form of Bonds."

Transfers of bonds will be effected by or on behalf of the Issuer, the registrar or the transfer agents, without charge to the holder except for any tax or governmental charges or insurance charges which may be imposed in relation to such transfer or any expenses of delivery other than regular mail. The Issuer is not required to transfer or exchange any individual definitive bond selected for redemption.

No holder may require the transfer of a bond to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that bond.

Additional Amounts

All payments by the Issuer or a Guarantor in respect of the bonds will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of the United States, Brazil or any political subdivision or authority of or in the United States or Brazil having power to tax, or any other jurisdiction in which the Issuer or a Guarantor is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (any of the aforementioned being a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In the event that any such taxes, duties, assessments, fees or other governmental charges (and any fines, penalties or interest related thereto) are so imposed or levied, the Issuer, or a Guarantor, as applicable, will pay to each holder such additional amounts as may be necessary in order that every net payment made by the Issuer or a Guarantor, as applicable, on each bond after such withholding or deduction imposed upon or as a result of such payment by a Taxing Jurisdiction will not be less than the amount then due and payable on such bond. The foregoing obligation to pay additional amounts, however, will not apply to or in respect of:

- any tax, duty, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder, on the one hand, and the relevant Taxing Jurisdiction, on the other hand (including, without limitation, such holder being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of, or the enforcement of rights under, such bond;
- any tax, duty, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of the holder if (a) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which the Issuer or a Guarantor, as applicable, will apply this clause (iii), either the Issuer or a Guarantor, as applicable, will have notified all holders of bonds that some or all holders of bonds will be required to comply with such requirement;
- any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;
- any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest on the bond; or
- any combination of the above.

The Issuer or a Guarantor, as applicable, will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration, enforcement or the making of payments in respect of the bonds, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the United States or Brazil, other than those resulting from, or required to be paid in connection with, the enforcement of the bonds following the occurrence of any default or Event of Default.

No additional amounts will be paid with respect to a payment on any bond to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the bond.

The Issuer or a Guarantor, as applicable, will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available without unreasonable burden or expense, a certified copy thereof or, if such certified copy is not available, other documentation satisfactory to the trustee) evidencing any payment of taxes, penalties, duties, assessments, fees or other governmental charges in respect of which the Issuer or such Guarantor has paid any additional amounts. Copies of such documentation will be made available to the holders of the bonds or the paying agents, as applicable, upon request therefor.

All references in this offering memorandum to principal of and interest on the bonds will include any additional amounts payable by the Issuer in respect of such principal and such interest. The obligations described under “—Additional Amounts” will survive until the bonds have been paid in full and will apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer or a Guarantor is organized or any political subdivision or taxing authority or agency thereof or therein.

The Issuer and the Guarantors undertake that, while European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is in effect, the Issuer and the Guarantors will ensure that it maintains a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Covenants

Limitations on the Issuer

The indenture limits and restricts the Issuer from taking the following actions or engaging in the following activities or transactions:

- (1) so long as any of the bonds are outstanding, incurring or permitting to exist any Debt for borrowed money unless such financing transactions are guaranteed by one or more of the Guarantors in respect of the amounts so financed; and
- (2) entering into any consolidation, merger, amalgamation, joint venture or other form of combination with any person, or selling, leasing, conveying or otherwise disposing of any of its assets or receivables, except as otherwise permitted under “—Limitation on Consolidation, Merger or Transfer of Assets” below.

Limitation on Liens

The Issuer will not create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on its Capital Stock. Under the indenture, the Guarantors will not, nor will Gerdau permit any Restricted Subsidiary, including any of the Guarantors, to, create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on any of their Capital Stock securing any obligation, unless contemporaneously therewith effective provision is made to secure the bonds equally and ratably with such obligation for so long as such obligation is so secured. The preceding sentence will not require any of the Guarantors or any Restricted Subsidiary to equally and ratably secure the bonds if the Lien consists of the following:

- (1) any Lien existing on the date of the indenture, and any extension, renewal or replacement thereof or of any Lien in clause (2), (3) or (4) below; *provided, however*, that the total amount of Debt so secured is not increased;
- (2) any Lien on any property or assets (including Capital Stock of any person) securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the indenture; *provided* that (a) the aggregate principal amount of Debt secured by such Lien will not exceed (but may be less than) the cost (*i.e.*, purchase price) of the property or assets so acquired, constructed or improved and (b) such Lien is incurred before, or within 120 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of the Guarantors or any Restricted Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, such Lien also may encumber other property or assets of the person so acquired;
- (3) any Lien securing Debt incurred for the purpose of financing all or part of the cost of the acquisition, construction or development of a project (including mini-mills and other facilities); *provided* that the lenders of such Debt expressly agree to limit their recourse in respect of such Debt to assets (including Capital Stock of the project entity) and/or revenues of such project with an aggregate value of not more than the amount of such Debt; and *provided, further*, that the Lien is incurred before, or within 120 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets of Gerdau or any Subsidiary;
- (4) any Lien existing on any property or assets of any person before that person’s acquisition by, merger into or consolidation with Gerdau or any Restricted Subsidiary after the date of the

indenture; *provided* that (a) such Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (b) the Debt secured by such Lien may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (c) such Lien will not apply to any other property or assets of Gerdau or any of its Restricted Subsidiaries and (d) such Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;

(5) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;

(6) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which Gerdau or any Restricted Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which Gerdau or any Restricted Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(7) any Lien in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of Gerdau or any Restricted Subsidiary in the ordinary course of business;

(8) any Lien securing taxes, assessments and other governmental charges, the payment of which are not yet due or are being contested in good faith by appropriate proceedings and for which such reserves or other appropriate provisions, if any, have been established as required by IFRS;

(9) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of Gerdau or any Restricted Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(10) any rights of set-off of any person with respect to any deposit account of Gerdau or any Restricted Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(11) any Liens granted to secure borrowings from, directly or indirectly, (a) *Banco Nacional de Desenvolvimento Econômico e Social*—BNDES, or any other Brazilian governmental development bank or credit agency or (b) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;

(12) any Liens on the inventory or receivables of Gerdau or any Restricted Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in connection with any structured export or import financing or other trade transaction; *provided* that the aggregate principal amount of Debt incurred that is secured by receivables that will fall due in any fiscal year shall not exceed (a) with respect to transactions secured by receivables from export sales, 80% of Gerdau's consolidated gross revenues from export sales for the immediately preceding fiscal year of Gerdau; or (b) with respect to transactions secured by receivables from domestic (Brazilian) sales, 80% of such person's consolidated gross revenues from sales within Brazil for the immediately preceding fiscal year of Gerdau; and *provided, further*, that Advance Transactions will not be deemed transactions secured by receivables for purpose of the above calculation; and

(13) in addition to the foregoing Liens set forth in clauses (1) through (12) above, Liens securing Debt of Gerdau or any Restricted Subsidiary (including, without limitation, guarantees of Gerdau or any Restricted Subsidiary) the aggregate principal amount of which, at any time of determination, does not exceed 15% of Consolidated Net Tangible Assets.

Limitation on Transactions with Affiliates

The Transaction Parties will not, nor will they permit any Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate, other than a Wholly-owned Subsidiary, which we refer to as an “Affiliate Transaction,” unless the terms of the Affiliate Transaction are no less favorable to such Transaction Party or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm’s-length dealings with a person who is not an Affiliate.

Limitation on Consolidation, Merger or Transfer of Assets

No Transaction Party will consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any person, unless:

(1) the resulting, surviving or transferee person or persons (if not a Transaction Party) will be a person or persons organized and existing under the laws of Brazil, the United States, any State thereof or the District of Columbia, Canada or any other country that is a member country of the European Union or of the Organisation for Economic Co-operation and Development on the date of the indenture, and such person or persons expressly assume, by a supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of such Transaction Party under the indenture;

(2) the resulting, surviving or transferee person or persons (if not a Transaction Party), if not organized and existing under the laws of Brazil or the United States undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the bonds or the guarantees, as applicable, after deduction or withholding for or on account of any present or future tax, penalty, duty, assessment, fee or other governmental charge (and any fines, penalties, interest or other liabilities related thereto) imposed by the United States or such other country, as the case may be, or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the bonds, subject to the same exceptions set forth under clauses (i), (ii) and (iii) under “Additional Amounts” but adding references to the United States or such other country to the existing references in such clause to Brazil or the United States;

(3) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) the Transaction Parties will have delivered to the trustee an officers’ certificate and an opinion of legal counsel of recognized standing, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture, if any, comply with the indenture and that all conditions precedent under the indenture to the consummation of such transaction have been satisfied.

The trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

Repurchase of Bonds upon a Change of Control

Not later than 30 days following a Change of Control that results in a Ratings Decline, Gerdau, acting on behalf of the Issuer, will make an Offer to Purchase all outstanding bonds at a purchase price equal to 101.0% of the principal amount plus accrued interest to the date of purchase.

An “Offer to Purchase” must be made by written offer, which will specify the principal amount of bonds subject to the offer and the purchase price. The offer must specify an expiration date, which we refer to as the “Expiration Date,” not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase, which we refer to as the “Purchase Date,” not more than five Business Days after the Expiration Date. The offer must include information concerning the business of Gerdau which it believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable holders to tender bonds pursuant to the offer. Gerdau will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A holder may tender all or any portion of its bonds pursuant to an Offer to Purchase, subject to the requirement that any portion of a bond tendered must be in a multiple of US\$1,000 principal amount and that the minimum tender of any holder must be no less than US\$100,000. Holders shall be entitled to withdraw bonds tendered up to the close of business on the Expiration Date. On the Purchase Date the purchase price will become due and payable on each bond accepted for purchase pursuant to the Offer to Purchase, and interest on bonds purchased will cease to accrue on and after the Purchase Date.

Gerdau agrees to obtain all necessary consents and approvals from all appropriate Brazilian and other governmental authorities or agencies having jurisdiction over Gerdau and the Offer to Purchase for the remittance of funds outside of Brazil prior to making any Offer to Purchase. Any failure to obtain such consents and approvals shall constitute an Event of Default hereunder.

Reporting Requirements

Gerdau, acting on behalf of the Transaction Parties, will provide or make available to the trustee the following reports (and will also provide the trustee with electronic versions or, in lieu thereof, sufficient copies of the following reports referred to in clauses (1) through (4) below for distribution, at Gerdau’s expense, to all holders of bonds):

(1) an English language version of Gerdau’s annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 180 days after the close of its fiscal year;

(2) an English language version of Gerdau’s unaudited quarterly financial statements prepared in accordance with IFRS (including, as supplementary information, an unaudited condensed consolidated balance sheet and an unaudited condensed consolidated statement of operations, in each case, prepared in accordance with IFRS), promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of its fiscal year);

(3) simultaneously with the delivery of each set of financial statements referred to in clauses (1) and (2) above, an officers’ certificate from Gerdau stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Issuer and/or any Guarantor is taking or proposes to take with respect thereto;

(4) without duplication, English language versions (or summaries) of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Issuer and/or the Guarantors with (a) the Brazilian Securities Commission, which we refer to as the “CVM,” (b) the Luxembourg Stock Exchange or any other stock exchange, if any, on which the bonds may be listed or (c) the SEC (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act, or otherwise); and

(5) upon any director or executive officer of any of the Transaction Parties becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either

principal or interest on the bonds are prohibited, an officers' certificate setting forth the details thereof and the action which Gerdau is taking or proposes to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee's access to, or receipt of, such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including compliance by the Transaction Parties with any of their covenants in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

None of the Transaction Parties other than Gerdau will be required to provide or distribute any financial or other reports described above.

Events of Default

An "Event of Default" occurs if:

(1) there is a failure to pay interest (including any related additional amounts) on any bond when the same becomes due and payable, and such default continues for a period of 30 days;

(2) there is failure to pay principal (including any related additional amounts) of any bond when the same becomes due and payable upon redemption or as described under "—Covenants—Repurchase upon a Change of Control" or otherwise;

(3) any of the Transaction Parties fails to comply with any of the covenants described under "—Covenants—Limitation on the Issuer," "—Covenants—Limitation on Liens," "—Covenants—Limitation on Transactions with Affiliates" or "—Covenants—Limitation on Consolidation, Merger or Transfer of Assets," and such failure continues for 30 days after the notice specified below;

(4) any of the Transaction Parties fails to comply with any of its covenants or agreements in the bonds or the indenture (other than those referred to in (1), (2) and (3) above), and such failure continues for 60 days after the notice specified below;

(5) any of the Transaction Parties or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for borrowed money by such Transaction Parties or any such Significant Subsidiary (or the payment of which is guaranteed by such Transaction Parties or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default, which we refer to as a "Payment Default," or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals US\$35.0 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(6) one or more final judgments or decrees for the payment of money of US\$35.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against any of the Transaction Parties or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(7) certain events of bankruptcy or insolvency of any of the Transaction Parties or any Significant Subsidiary occur; or

(8) any guarantee of the bonds ceases to be in full force and effect or any of the Guarantors denies or disaffirms its obligations under its guarantee of the bonds.

A Default under clause (3) or (4) above will not constitute an Event of Default until the trustee or the holders of at least 25% in principal amount of the bonds outstanding notify the Transaction Parties of the Default and the Transaction Parties do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an attorney, authorized officer or agent of the trustee with direct responsibility for the indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the trustee by any of the Transaction Parties or any holder.

If an Event of Default (other than an Event of Default specified in clause (7) above) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the bonds then outstanding may declare all unpaid principal of and accrued interest on all bonds to be due and payable immediately, by a notice in writing to the Transaction Parties (and to the trustee, if notice is given by the holders), stating that such notice is an “acceleration notice,” and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (7) above occurs and is continuing, then the principal of and accrued interest on all bonds will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders have offered to the trustee indemnity reasonably satisfactory to the trustee. Subject to such provision for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the outstanding bonds will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

The Transaction Parties may at any time terminate all of their obligations with respect to the bonds, which we refer to as “defeasance,” except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the bonds, to replace mutilated, destroyed, lost or stolen bonds and to maintain agencies in respect of bonds. The Transaction Parties may at any time terminate their obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the bonds issued under the indenture, which we refer to as “covenant defeasance.” In order to exercise either defeasance or covenant defeasance, the Transaction Parties, either acting through Gerda or otherwise, must irrevocably deposit in trust, for the benefit of the holders of the bonds, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, and interest on the bonds to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax matters.

Amendment, Supplement, Waiver

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the bonds then outstanding, and any past Default or Event of Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the bonds then outstanding. However, without the consent of each holder of an outstanding bond affected thereby, no amendment or waiver may:

- reduce the rate of or extend the time for payment of interest on any bond;

- reduce the principal of any bond;
- reduce the amount payable upon redemption of any bond or change the time at which any bond may be redeemed;
- change the currency for payment of principal of or interest on any bond;
- impair the right to institute a suit for the enforcement of any right to payment on or with respect to any bond;
- waive certain payment defaults with respect to the bonds;
- reduce the principal amount of bonds whose holders must consent to any amendment or waiver; or
- make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the bonds will receive prior notice as described under “— Notices” of any proposed amendment to the bonds or the indenture or any waiver described in this paragraph. After an amendment or waiver described in the preceding paragraph becomes effective, the Issuer is required to mail to the holders a notice briefly describing such amendment or waiver. However, the failure to give such notice to all holders of the bonds, or any defect therein, will not impair or affect the validity of the amendment or waiver.

The consent of the holders of the bonds is not necessary to approve the particular form of any proposed amendment or waiver. It is sufficient if such consent approves the substance of the proposed amendment or waiver.

The Transaction Parties and the trustee may, without notice to or the consent or vote of any holder of the bonds, amend or supplement the indenture or the bonds for the following purposes:

- to cure any ambiguity, omission, defect or inconsistency, provided that such amendment or supplement does not materially and adversely affect the rights of any holder;
- to comply with the covenant described under “— Limitation on Consolidation, Merger or Transfer of Assets”;
- to add guarantees or collateral with respect to the bonds;
- to add to the covenants of any of the Transaction Parties for the benefit of holders of the bonds;
- to surrender any right conferred upon any of the Transaction Parties;
- to evidence and provide for the acceptance of an appointment by a successor trustee;
- to comply with any requirements of the SEC in connection with any qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended;
- to provide for the issuance of additional bonds; or
- to make any other change that does not materially and adversely affect the rights of any holder of the bonds.

Notices

In the case of global bonds, notices to be given to holders will be given to the depository, as the holder thereof, and such depository will communicate such notice to its participants in accordance with its applicable

policies as in effect from time to time. If bonds are issued in certificated form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the bonds at their registered addresses as they appear in the trustee's records. For so long as the bonds are listed on the Euro MTF of the Luxembourg Stock Exchange and it is required by the rules of such exchange, all such notices to the holders of the bonds will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Trustee

The Bank of New York Mellon is the trustee under the indenture.

The indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture.

Except during the continuance of an Event of Default, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee or the principal paying agent. In case an Event of Default has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in such exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee or the principal paying agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

The Transaction Parties and their respective Affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates. The address of the trustee is 4 New York Plaza - 15th Floor, New York, NY 10004, U.S.A.

Governing Law and Submission to Jurisdiction

The bonds, the indenture and the guarantees will be governed by the laws of the State of New York.

The Transaction Parties will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the bonds and the indenture. The Transaction Parties have appointed Law Debenture Corporate Services Inc. as their authorized agent upon which process may be served in any such action.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Transaction Parties under or in connection with the bonds, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of a judgment or the enforcement of a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of any of the Transaction Parties or otherwise) by any holder of a bond in respect of any sum expressed to be due to it from any of the Transaction Parties will only constitute a discharge of such sum to the extent of the amount of U.S. dollars that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any bond, the Transaction Parties will jointly and severally indemnify such holder against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a bond, be deemed to have agreed to repay such excess. In any event, the Transaction Parties will jointly and severally indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a bond to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or

recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Transaction Parties, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a bond and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any bond.

Certain Definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Advance Transaction” means an advance from a financial institution involving either (a) a foreign exchange contract (ACC — *Adiantamento sobre Contrato de Câmbio*) or (b) an export contract (ACE — *Adiantamento sobre Cambiais Entregues*).

“Affiliate” means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Brazil” means the Federative Republic of Brazil.

“Business Day” means any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in The City of New York or São Paulo, Brazil.

“Capital Lease Obligations” means, with respect to any person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with IFRS; the amount of such obligation will be the capitalized amount thereof, determined in accordance with IFRS; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Capital Stock” of any person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting) such person’s equity, including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Change of Control” means: (1) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, other than any Permitted Holders) is or becomes the “beneficial owner” (as such term is used in Rules 13d-3 under the Exchange Act), directly or indirectly, of more than 50.0% of the total voting power of the outstanding voting stock of Gerdau, including as a result of any merger or consolidation transaction including Gerdau or any of the other Guarantors; or (2) Permitted Holders, directly or indirectly, cease to have the power to direct or cause the direction of the management and policies of Gerdau, whether through the ownership of voting securities, by contract or otherwise.

“Consolidated Net Tangible Assets” means the total amount of assets of Gerdau and its Subsidiaries less (a) applicable depreciation, amortization and other valuation reserves, (b) all current liabilities excluding intercompany Debt and (c) all goodwill, trade names, trademarks, patents, and other intangibles, each as set forth on the most recent financial statements delivered by Gerdau to the trustee in accordance with “— Covenants — Reporting Requirements.”

“CVM” means the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*.

“Debt” means, with respect to any person, without duplication:

(a) the principal of and premium, if any, in respect of (i) indebtedness of such person for borrowed money and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such person is responsible or liable;

(b) all Capital Lease Obligations of such person;

(c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);

(d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such person of a demand for reimbursement following payment on the letter of credit);

(e) all Hedging Obligations of such person;

(f) all obligations of the type referred to in clauses (a) through (d) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);

(g) all obligations of the type referred to in clauses (a) through (e) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and

(h) any other obligations of such person which are required to be, or are in such person’s financial statements, recorded or treated as debt under IFRS.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Guarantee” means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Guarantor” means each of Gerdau S.A. and its subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. until replaced by a successor thereof and, thereafter, includes the successor for purposes of any provision contained in the indenture.

“Hedging Obligations” means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures

contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

“holder” means the person in whose name a bond is registered in the register.

“IFRS” means International Financial Reporting Standards as in effect from time to time;

“Investment” means, with respect to any person, any loan or advance to, any acquisition of Capital Stock, equity interests, obligations or other securities of, any capital contribution to or any other investment in, such person.

“Issuer” means Gerdau Holdings Inc.

“Lien” means any mortgage, pledge, security interest, encumbrance, conditional sale or other title retention agreement or other similar lien.

“Permitted Holders” means any or all of the following: (a) Metalúrgica Gerdau S.A.; and (b) any Person both the capital stock and the voting stock of which (or in the case of a trust, the beneficial interests in which) are owned, directly or indirectly, more than 50.0% by Metalúrgica Gerdau S.A.

“person” means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency, department or political subdivision thereof.

“Rating Agencies” means, as applicable, (i) Standard & Poors Corporation, a division of The McGraw-Hill Company, (ii) Moodys Investors Service, Inc., or (iii) Fitch Ratings Ltd.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the bonds is under publicly announced consideration for possible downgrade by either Rating Agency) after the date of public notice of a Change of Control, or of Gerdau’s publicly declared intention or that of any person or entity to effect a Change of Control, the then-applicable rating of the bonds is decreased by either Rating Agency by one or more categories so long as any such Ratings Decline is expressly stated by the applicable Rating Agency to have been the result of the Change in Control.

“Restricted Subsidiaries” means any Subsidiary of Gerdau, including the Issuer, other than Gerdau Ameristeel Corporation, any of their subsidiaries and any other person in which they have an equity interest.

“Significant Subsidiary” means any Subsidiary of Gerdau which at the time of determination either (i) had assets which, as of the date of Gerdau’s most recent quarterly consolidated balance sheet, constituted at least 10% of Gerdau’s total assets on a consolidated basis as of such date, or (ii) had revenues for the 12-month period ending on the date of Gerdau’s most recent quarterly consolidated statement of income which constituted at least 10% of Gerdau’s total revenues on a consolidated basis for such period.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency, unless such contingency has occurred).

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) Gerdau, (b) Gerdau and one or more Subsidiaries (including the Issuer) or (c) one or more Subsidiaries.

“Wholly-owned Subsidiary” means a Subsidiary all of the Capital Stock of which (other than directors’ qualifying shares) is owned by Gerdau or another Wholly-owned Subsidiary.

FORM OF BONDS

Bonds sold in offshore transactions in reliance on Regulation S will be represented by a permanent global bond or bonds in fully registered form without interest coupons, which we refer to as the “Regulation S Global Bond,” and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. Bonds sold in reliance on Rule 144A will be represented by a permanent global bond or bonds in fully registered form without interest coupons, which we refer to as the “Restricted Global Bond” and, together with the Regulation S Global Bond, the “global bonds,” and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The bonds will be subject to certain restrictions on transfer as described in “Notice to Investors.” On or prior to the 40th day after the closing date of this offering, a beneficial interest in the Regulation S Global Bond may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Bond only upon receipt by the principal paying agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction, which we refer to as a “Restricted Global Bond Certificate.” After such 40th day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Bond may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond, whether before, on or after such 40th day, only upon receipt by the trustee or transfer agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144A under the Securities Act, which we refer to as a “Regulation S Global Bond Certificate.” Any beneficial interest in one of the global bonds that is transferred to a person who takes delivery in the form of an interest in the other global bond will, upon transfer, cease to be an interest in such global bond and become an interest in the other global bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global bond for as long as it remains an interest.

Except in the limited circumstances described under “—Individual Definitive Bonds,” owners of the beneficial interests in global bonds will not be entitled to receive physical delivery of individual definitive bonds. The bonds are not issuable in bearer form.

Global Bonds

Upon the issuance of the Regulation S Global Bond and the Restricted Global Bond, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global bond will be limited to persons who have accounts with DTC, which we refer to as “DTC Participants,” or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the bonds represented by such global bond for all purposes under the indenture and the bonds. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depository for a global bond, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the bonds becomes immediately due and payable in accordance with “Description of Bonds—Events of Default,” owners of beneficial interests in a global bond will not be entitled to have any portions of such global bond registered in their names, will not receive or be entitled to receive physical delivery of bonds in individual definitive form and will not be considered the owners or holders of the global bond (or any bonds represented thereby) under the indenture or the bonds. In addition, no beneficial owner of an interest in a global bond will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream Luxembourg).

Investors may hold interests in the global bond through Euroclear or Clearstream Luxembourg, if they are participants in such systems. Euroclear and Clearstream Luxembourg will hold interests in the global bonds on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories, which, in turn, will hold such interests in the global bond in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Restricted Global Bond directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants.

Payments of the principal of and interest on global bonds will be made to DTC or its nominee as the registered owner thereof. None of the Issuer, the Guarantors or the initial purchasers will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer anticipates that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global bond representing any bonds held by its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global bond as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global bond held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global bond to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global bond to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest. Transfers between accountholders in Euroclear and Clearstream Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the bonds described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream Luxembourg account holders, on the other hand, will be effected at DTC in accordance with DTC rules on behalf of Euroclear or Clearstream Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Bond in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream Luxembourg account holders may not deliver instructions directly to the depositories for Euroclear or Clearstream Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream Luxembourg account holder purchasing an interest in a global bond from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global bond settled during such processing day will be reported to the relevant Euroclear or Clearstream Luxembourg accountholder on such day. Cash received in Euroclear or Clearstream Luxembourg as a result of sales of interests in a global bond by or through a Euroclear or Clearstream Luxembourg account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by holder of bonds (including the presentation of bonds for exchange as described below) only at the direction of one or more DTC Participants to

whose account or accounts with DTC interests in the global bonds are credited and only in respect of such portion of the aggregate principal amount of the bonds as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described below, DTC will exchange the global bonds for individual definitive bonds (in the case of bonds represented by the Restricted Global Bond, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global bonds through DTC Participants have no direct rights to enforce such interests while the bonds are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global bond will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, which we refer to as “indirect participants.”

Although DTC, Euroclear and Clearstream Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Bond and in the Restricted Global Bond among participants and accountholders of DTC, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the trustee will have any responsibility for the performance of DTC, Euroclear or Clearstream Luxembourg or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Individual Definitive Bonds

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository or DTC ceases to be a “clearing agency” and a successor depository is not appointed by the Issuer within 90 days or (2) any of the bonds has become immediately due and payable in accordance with “Description of Bonds — Events of Default,” the Issuer will issue individual definitive bonds in registered form in exchange for the Regulation S Global Bond and the Restricted Global Bond, as the case may be. Upon receipt of such notice from DTC or the trustee, as the case may be, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global bonds for individual definitive bonds and cause the requested individual definitive bonds to be executed and delivered to the trustee in sufficient quantities and authenticated by the trustee for delivery to holders. Persons exchanging interests in a global bond for individual definitive bonds will be required to provide the registrar with (a) written instruction and other information required by the Issuer and the registrar to complete, execute and deliver such individual definitive bonds and (b) in the case of an exchange of an interest in a Restricted Global Bond, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive bonds delivered in exchange for any global bond or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive bonds issued in exchange for the Restricted Global Bond, such individual definitive bonds will bear, and be subject to, the legend described in “Notice to Investors” (unless the Issuer determines otherwise in accordance with applicable law). The holder of a restricted individual definitive bond may transfer such bond, subject to compliance with the provisions of such legend, as provided in “Description of Bonds.” Upon the transfer, exchange or replacement of bonds bearing the legend, or upon specific request for removal of the legend on a bond, the Issuer will deliver only bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may

include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any individual definitive bond may be transferred to a person who takes delivery in the form of an interest in any global bond, the transferor will be required to provide the principal paying agent with a Restricted Global Bond Certificate or a Regulation S Global Bond Certificate, as the case may be.

Individual definitive bonds will not be eligible for clearing and settlement through Euroclear, Clearstream Luxembourg or DTC.

TAXATION

The following discussion summarizes certain Brazilian, and United States federal income and European Union tax considerations that may be relevant to you if you invest in the bonds. This summary is based on laws and regulations now in effect in Brazil, laws, regulations, rulings and decisions now in effect in the United States and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

The following is a general discussion of certain tax considerations for prospective investors in the bonds. The discussion is based upon present law and interpretations of present law as in effect on the date of this prospectus supplement, both of which are subject to prospective and retroactive changes. The discussion does not consider any investor's particular circumstances, and it is not intended as tax advice. Each prospective investor is urged to consult its tax advisor about the tax consequences of an investment in the bonds under the laws of Brazil and the United States, jurisdictions from which the Issuer or the Company may derive their income or conduct their activities, and jurisdictions where the investor is subject to taxation.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the bonds by an individual, entity, trust or organization considered as resident or domiciled outside Brazil for tax purposes, or a Nonresident Holder. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date.

The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the bonds. Prospective investors should consult their own tax advisers as to the consequences of purchasing the bonds, including, without limitation, the consequences of the receipt of interest and the sale, redemption or repayment of the bonds.

Payments on the bonds made from the Issuer and gains on the bonds

Generally, a nonresident holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposal of assets located in Brazil. Therefore, based on the fact that the Issuer is considered for tax purposes as domiciled abroad, any income (including interest and original issue discount) paid by the Issuer in respect of the bonds issued by it in favor of nonresident holders are not subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by such Issuer outside of Brazil.

According to article 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposal of assets located in Brazil by a nonresident to another nonresident made outside Brazil, are subject to taxation in Brazil. Based on the fact that the bonds are issued abroad and that Issuer is considered for tax purposes as domiciled abroad and, thus, the bonds will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, gains on the sale or other disposal of the bonds made outside Brazil by a nonresident holder, other than a branch or a subsidiary of Brazilian resident, to another nonresident holder are not subject to Brazilian taxes. Although, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts. As a result, gains realized by a Nonresident Holder from the sale or other disposal of the bonds to a Brazilian resident or even to a Non-Resident in case the bonds are deemed to be assets located in Brazil may be subject to Brazilian withholding income tax, which we refer to as "WHT," at rate of 15%, or 25% if such Nonresident Holder is located in a tax haven jurisdiction, as defined by Brazilian legislation.

A "tax haven" jurisdiction is a jurisdiction that does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%. In addition, on June 24, 2008, Law No. 11,727 was enacted, with effect from January 1, 2009, establishing that a jurisdiction or country where local legislation imposes restrictions on disclosing the shareholding composition or the ownership of an investment is also considered a tax haven jurisdiction.

Law No. 11,727 also changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with the creation of the concept of a privileged tax regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or tax it at a maximum rate lower than 20%; (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or territory; (iii) does not tax or taxes proceeds generated abroad at a maximum rate lower than 20% or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. Because several Brazilian regulations refer to the concepts defined in the Brazilian transfer pricing rules when referring to tax haven jurisdictions, there is a risk that a privileged tax regime will be treated similarly to a low tax jurisdiction, and therefore subject such transactions to the burdensome income tax rates, discussed above.

Due to the recent enactment of this law, we are not able to ascertain if this privileged tax regime concept will only be applied to determine the scope of transactions subject to transfer pricing rules or whether it will also serve to extend the concept of “tax haven” jurisdictions provided by other Brazilian regulations. The Federal Revenue Service should clarify itself on both alterations of Law No. 11,727 soon, and may (i) issue a new tax haven list (the most recent such list was issued through Normative Ruling No. 188 on June 8, 2002); and (ii) determine which locations shall be considered under a privileged tax regime.

We recommend that prospective purchasers consult their own tax advisors regarding the changes implemented by Law No. 11,727.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposal of the bonds by a nonresident holder, except for gift inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

Payments on the bonds made from the Guarantors

If the Issuer fails to punctually pay any due amount, including any payment of principal, interest or any other amount that may be due and payable in respect of the bonds, the Guarantors will be required to assume the obligation to pay such due amounts. As there is no specific legal provision dealing with the imposition of the WHT on payments made by Brazilian sources to non-resident beneficiaries under guarantees and no uniform decision from the Brazilian courts, there is a risk that tax authorities will take the position that the funds remitted by the Guarantors to the Non-Resident Holders may be subject to the imposition of the WHT at a general 15% rate, or at a 25% rate, if the Non-Resident Holder is located in a LTJ. In any case, we understand that there are arguments to sustain that (a) payments made under the guarantee structure should be subject to imposition of the WHT according to the nature of the guaranteed payment, in which case only interest and fees should be subject to taxation at the rates of 15% or 25%, in cases of beneficiaries located in LTJ, as defined by the Brazilian legislation; or (b) that payments made under guarantee by Brazilian sources to non-resident beneficiaries should not be subject to the imposition of the WHT, to the extent that they should qualify as a credit transaction by the Brazilian party to the borrower. This is however controversial issue, still not decided by the Brazilian Courts.

Pursuant to Decree No. 6,306 of December 14, 2007 (as amended), conversion into *reais* of proceeds received in foreign currency by a Brazilian entity and the conversion into foreign currency of proceeds received in *reais* are subject to the IOF levied upon foreign exchange transactions, which we refer to as “IOF/Câmbio.” Currently, IOF/Câmbio rate for some foreign currency exchange transactions is 0.38%. The remittance of funds by Guarantors to Non-Resident Holders under the guarantee structure will be subject to the imposition of Tax on Exchange Transactions, which we refer to as “IOF/Exchange,” at a 0.38% rate.

In the event of withholding or deduction for or on account of Brazilian taxes, the Issuer and the Guarantors will, subject to certain exceptions, pay Additional Amounts in respect of such withholding or deduction so that the net amount received by the holder after such withholding or deduction equals the amount of principal or interest that would have been received in the absence of such withholding or deduction. See “Description of Bonds—Payment of Additional Amounts.”

Certain United States Federal Income Tax Considerations

CIRCULAR 230 NOTICE: THE DISCUSSION BELOW IS NOT GIVEN IN THE FORM OF A COVERED OPINION, WITHIN THE MEANING OF CIRCULAR 230 ISSUED BY THE UNITED STATES SECRETARY OF THE TREASURY. THUS, THE COMPANY IS REQUIRED TO INFORM YOU THAT THIS SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS WITH RESPECT TO AN INVESTMENT IN THE BONDS WAS NOT INTENDED OR WRITTEN, AND CANNOT BE USED BY ANY INVESTOR, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR. THIS SUMMARY HAS BEEN WRITTEN TO SUPPORT THE PROMOTION AND MARKETING OF THE BONDS. PROSPECTIVE INVESTORS ARE URGED TO SEEK ADVICE BASED UPON THEIR OWN PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

U.S. Holders

The following is a summary of certain United States federal income tax considerations that may be relevant to a holder of a bond that is, for United States federal income tax purposes an individual who is a citizen or resident of the United States or a domestic corporation (or other entity treated as a domestic corporation for United States federal income tax purposes) or that otherwise is subject to United States federal income taxation on a net income basis in respect of the bond, which we refer to as a “U.S. Holder,” as well as certain federal income tax consequences relevant to a non-U.S. Holder of the bonds. This summary is for general information only and does not consider all aspects of United States federal income tax or other taxes that may be relevant to the acquisition, ownership and disposition of the bonds. It does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect. There can be no assurance that the Internal Revenue Service, which we refer to as the “IRS,” will not take positions concerning the tax consequences of the acquisition, ownership or disposition of the bonds that are different from those discussed below. This summary deals only with U.S. Holders that will hold bonds as capital assets, and only if the U.S. Holder purchased the bonds for cash, at their original issue price, during the initial offering. This summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, thrifts or other financial institutions or financial services companies, tax-exempt organizations, insurance companies, pension funds, dealers in securities or currencies, regulated investment companies or real estate investment trusts, traders in securities electing mark to market tax accounting, persons subject to the alternative minimum tax, persons that will hold bonds as a position in a “straddle,” or a hedging or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, or persons subject to net United States taxation that have a “functional currency” other than the United States dollar.

If any entity that is treated as a partnership for United States federal income tax purposes holds the bonds, the United States federal income tax treatment generally will depend upon the activities of the partnership and the status of the partners. Prospective purchasers that are partnerships should consult their tax advisers concerning the United States federal income tax consequences to their partners of the acquisition, ownership and disposition of the bonds by the partnership.

Characterization of the bonds

The Company believes that the bonds constitute debt for United States federal income tax purposes and intend to treat them as such. The discussion below assumes that the bonds constitute debt for United States federal income tax purposes.

Payments of interest

The bonds are expected to be issued for an amount equal to their stated redemption price at maturity and, accordingly, should not be considered to be issued with original issue discount. As a result, each holder of bonds should include interest income on the bonds in its income in accordance with its normal method of accounting. Payments of interest on a bond (which may include Additional Amounts) will generally be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder’s regular

method of tax accounting. Interest income in respect of the bonds will constitute United States-source income for United States federal income tax purposes.

The Issuer expects to issue the bonds with accrued interest. There is some uncertainty as to whether the accrued interest should be treated as part of the issue price of the bonds or should be treated as pre-issuance interest which is separately accounted for. The Issuer intends to separately account for such accrued interest. Accordingly, any separately-stated amount that a holder pays for such accrued interest should reduce the portion of the pre-issuance interest that is taxable to a holder assuming that such holder excludes such amount from its initial basis in the bonds. The Issuer will report such pre-issuance interest as interest income to all holders of bonds that are subject to United States federal income tax information reporting.

Sale or disposition of bonds

A U.S. Holder will generally recognize capital gain or loss upon the sale, exchange, retirement or other disposition of a bond in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other disposition (other than amounts attributable to accrued interest, which will be taxed as such) and such U.S. Holder's adjusted tax basis in the bond. Any capital gain or loss recognized by a U.S. Holder upon the sale, exchange, retirement or other disposition of a bond will be long-term capital gain or loss if the U.S. Holder has held the bond for more than one year. Certain U.S. Holders (including individuals) may be eligible for preferential tax rates in respect of long-term capital gain, which rates currently are scheduled to increase on January 1, 2011. The deductibility of capital losses is subject to certain limitations. A U.S. Holder's tax basis in the bond will generally equal the U.S. Holder's cost for the bond, minus any principal payments made on the bond prior to the sale. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other disposition of a bond will generally be United States source gain or loss for United States federal income tax purposes unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met.

Backup withholding and information reporting

A U.S. Holder may be subject to information reporting requirements and "backup withholding" (currently at a rate of 28%) with respect to cash payments of principal and interest on the bonds and on the gross proceeds from dispositions of the bonds, unless the holder (i) is a corporation or comes within certain other exempt categories and demonstrates this fact when so required, or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules generally will be creditable against the U.S. Holder's United States federal income tax liability provided the required information is timely furnished to the IRS.

Non-U.S. Holders

Payments of Interest

A Non-U.S. Holder generally will not be subject to United States federal income or withholding tax in respect of payments of interest (including additional amounts or payments under the guarantees in respect of interest, if any) by the Issuer or its paying agents in respect of a note, unless the interest is effectively connected with such holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment maintained by such holder within the United States). If that exception applies, then the Non-U.S. Holder generally will be subject to United States federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income (currently at a 30.0% rate or, if applicable, a lower tax treaty rate).

Notwithstanding the above, a holder will be subject to United States federal income tax withholding at a 30% rate (or such lesser rate as may be specified by a applicable income tax treaty) on interest payments to be made on the bonds if any of the following circumstances exist:

- The Non-U.S. Holder directly or indirectly owns 10% or more of the total voting power of all classes of voting equity of the Issuer;
- The Non-U.S. Holder is a “controlled foreign corporation” (within the meaning of the Internal Revenue Code) that is related or under common control with the Issuer; or
- The Non-U.S. Holder is a bank and the bond is considered to be an extension of credit pursuant to a loan agreement entered into the ordinary course of its trade or business.

As discussed above, Non-U.S. Holders who are subject to United States federal income tax withholding by reason of any of these three rules will not be entitled to payments of Additional Amounts in respect of such tax withholding.

Sales or Other Taxable Dispositions

A Non-U.S. Holder generally will not be subject to United States federal income or withholding tax on any gain realized in connection with the sale or other taxable disposition of a note, unless (i) such gain is effectively connected with such holder’s conduct of a trade or business within the United States (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by such holder within the United States), or (ii) such holder is an individual present in the United States for at least 183 days in the taxable year of such sale or other taxable disposition and certain other requirements are met. If the first exception applies then the Non-U.S. Holder generally will be subject to United States federal income tax in respect of such gain in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional “branch profits tax” in respect of any such effectively connected gain (currently at a 30% rate or, if applicable, a lower tax treaty rate). If the second exception applies then the Non-U.S. Holder generally will be subject to United States federal income tax at a rate of 30% on the amount by which such holder’s U.S.-source capital gains exceed such holder’s United States-source capital losses.

Information Reporting and Backup Withholding

In general, information reporting requirements may apply to payments of principal and interest on a note and to the proceeds of a sale or other disposition of a note. A “backup withholding” tax (currently at a rate of 28%) may apply to such payments or proceeds if the holder fails to provide a correct taxpayer identification number or to otherwise comply with the applicable backup withholding rules. Certain persons (including, among others, corporations and Non-U.S. Holders) that provide appropriate certification or otherwise qualify for exemption are not subject to the information reporting or backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder’s United States federal income tax liability provided that the required information is timely furnished to the IRS.

THE PRECEDING DISCUSSION OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAWS.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended, which we refer to as “ERISA,” imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, the ERISA plans) and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA’s general fiduciary requirements,

including the requirement of investment prudence and diversification and the requirement that an ERISA plan's investments be made in accordance with the documents governing the ERISA plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended, which we refer to as the "Code," prohibit certain transactions involving the assets of an ERISA plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA plans, the Plans) and certain persons (referred to as "parties in interest" for purposes of ERISA or "disqualified persons" for purposes of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Governmental plans, non-U.S. plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any bonds.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any bonds are acquired by a Plan with respect to which the Company or the initial purchasers or any of their respective affiliates is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire bonds and the circumstances under which such decision is made. The Company cannot assure you that any exemption will be available with respect to any particular transaction involving the bonds, or, if available, that any particular exemption will cover all possible prohibited transactions. By its purchase of any bonds, the purchaser thereof, and any transferee thereof, will be deemed to have represented and agreed either that (a) it is not and for so long as it holds the bonds will not be an ERISA plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other governmental plan, church plan or foreign plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase and holding of the bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or foreign plan, any substantially similar federal, state, local or non-U.S. law) for which an exemption is not available.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any bonds should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of bonds to a Plan is in no respect a representation by the Company or the initial purchasers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

The European Union has adopted a Directive regarding the taxation of savings income, which we refer to as the "EU Tax Directive." Countries that are member states of the European Union, which we refer to as "Member States," are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

In certain circumstances, the withholding tax provisions of the EU Tax Directive could apply to payments on notes that are made or received in Austria, Belgium or Luxembourg. It is expected that holders will be able to take steps to keep payments from being subject to such withholding tax, for example, by using a procedure (or procedures) to be made available pursuant to the EU Tax Directive (namely, releasing the paying agent of its professional secrecy duty to the extent permitted by law or by producing an appropriate tax certificate), or by

receiving payments from a paying agent within the European Union but outside Austria, Belgium and Luxembourg, although the Company cannot preclude the possibility that withholding tax will eventually be levied in some situations. In any event, details of payments made on bonds from a Member State will likely have to be reported to tax or other relevant authorities under the EU Tax Directive or local law, including, for example, to Member States in cases where recipients are located in the jurisdiction where payments are actually made.

NOTICE TO INVESTORS

General

The bonds and the guarantees have not been registered, and will not be registered, under the United States Securities Act or any other applicable securities laws, and the bonds may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the bonds are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than United States persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of bonds (other than the initial purchasers in connection with the initial issuance and sale of bonds) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the bonds for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-United States person that is outside the United States and is purchasing the bonds in compliance with Regulation S.
- (2) It acknowledges that the bonds have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except as set forth below.
- (3) It understands and agrees that bonds initially offered in the United States to qualified institutional buyers will be represented by one or more global bonds and that bonds offered outside the United States in reliance on Regulation S will also be represented by one or more global bonds.
- (4) It agrees, on its own behalf and on behalf of any investor account for which it is purchasing the bonds, that it will not resell or otherwise transfer any of such bonds except (a) to the Issuer, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act.
- (5) It agrees that it will give to each person to whom it transfers the bonds notice of any restrictions on transfer of such bonds.
- (6) It acknowledges that prior to any proposed transfer of bonds (other than pursuant to an effective registration statement or in respect of bonds sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such bonds may be required to provide certifications relating to the manner of such transfer as provided in the indenture.
- (7) It acknowledges that the trustee, registrar or transfer agent for the bonds will not be required to accept for registration transfer of any bonds acquired by it, except upon presentation of evidence satisfactory to the Issuer and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.

- (8) It acknowledges that if it is a purchaser in a sale that occurs outside of the United States within the meaning of Regulation S, the above restrictions on resale will apply until the expiration of the “40-day distribution compliance period” within the meaning of Rule 903 of Regulation S, and any offer or sale of the bonds shall not be made by it to a United States person or for the benefit or account of a United States person within the meaning on Rule 902 under the Securities Act.
- (9) It acknowledges that the Issuer, the Guarantors, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the bonds are no longer accurate, it will promptly notify the Issuer, the Guarantors and the initial purchasers. If it is acquiring the bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of the Rule 144A global bond, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This bond has not been registered under the United States Securities Act of 1933, as amended (the ‘Securities Act’), or any other securities laws. The holder hereof, by purchasing this bond, agrees that this bond or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (i) to the Issuer, (ii) so long as this bond is eligible for resale pursuant to Rule 144A under the Securities Act (‘Rule 144A’), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction and in accordance with the transfer restrictions contained in the indenture under which this bond was issued. The holder hereof, by purchasing this bond, represents and agrees that it will notify any purchaser of this bond from it of the resale restrictions referred to above.

The foregoing legend may be removed from this bond on satisfaction of the conditions specified in the indenture referred to herein.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global bond and which will be used to notify transferees of the foregoing restrictions on transfer:

“This bond has not been registered under the United States Securities Act of 1933, as amended (the ‘Securities Act’), or any other securities laws. The holder hereof, by purchasing this bond, agrees that neither this bond nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this bond after 40 days beginning on and including the later of (a) the date on which the bonds are offered to persons other than distributions (as defined in Regulation S under the Securities Act) and (b) the original issue date of this bond.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global bonds and certificated bonds, see “Form of Bonds.”

ENFORCEMENT OF CIVIL LIABILITIES

Each of the Guarantors is a corporation organized under the laws of Brazil. Substantially all of the Company's directors and officers and independent accountants and substantially all of the directors and officers and independent accountants of the Guarantors, and some of the advisors named herein, reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Guarantors are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons, or to enforce against them or against the Company judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the bonds, the Company will (i) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the bonds and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Bonds."

The Company has been advised by Machado, Meyer, Sendacz e Opice Advogados, its Brazilian counsel, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil, including the U.S. securities laws, subject to certain requirements described below, may be enforced in Brazil. A judgment against either the Company or any of its directors, officers, independent auditors or advisors obtained outside Brazil would be enforceable in Brazil against it or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is for a sum certain;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, the Company cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil, including the U.S. securities laws.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a note to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This note must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

PLAN OF DISTRIBUTION

Overview

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, the initial purchasers have agreed to purchase, and the Issuer has agreed to sell to the initial purchasers, the following respective principal amount of bonds listed opposite their name below:

HSBC Securities (USA) Inc.....	US\$	256,250,000
Santander Investment Securities Inc.		256,250,000
Banco Itaú Europa, S.A.—London Branch.....		150,000,000
Banc of America Securities LLC		112,500,000
Citigroup Global Markets Inc.		112,500,000
J.P. Morgan Securities Inc.		112,500,000
BB Securities Limited.....		31,250,000
BBVA Securities Inc.....		31,250,000
BNP Paribas Securities Corp.....		31,250,000
Banco Bradesco S.A. (acting through its Grand Cayman Branch).....		31,250,000
Calyon Securities (USA) Inc.....		31,250,000
Goldman, Sachs & Co.....		31,250,000
Morgan Stanley & Co. Incorporated.....		31,250,000
Scotia Capital (USA) Inc.		31,250,000
Total.....	US\$	1,250,000,000

Banco Itaú Europa, S.A.—London Branch is not a broker-dealer registered with the SEC, and therefore may not make sales of any bonds in the United States or to U.S. persons (as defined in Regulation S under the Securities Act) except in compliance with applicable U.S. laws and regulations. BB Securities Limited is not a broker-dealer registered with the SEC, and therefore may not make sales of any securities in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Limited intends to effect any sales of the bonds in the United States, BB Securities Ltd. will do so only through Banco do Brasil Securities LLC, its selling agent, or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law. To the extent that an initial purchaser intends to effect any sales of the bonds in the United States to U.S. persons, such initial purchaser will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

The purchase agreement provides that the obligations of the initial purchasers to purchase the bonds are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the bonds if it purchases any of the bonds.

The Issuer and the Guarantors have been advised that the initial purchasers propose to resell the bonds at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See “Notice to Investors.” The price at which the bonds are offered may be changed at any time without notice. The initial purchasers may resell the bonds through their respective affiliates.

The bonds and the guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Notice to Investors.”

Accordingly, in connection with sales outside the United States, the initial purchasers have agreed that, except as permitted by the purchase agreement and set forth in the “Notice to Investors,” they will not offer or sell the bonds within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells bonds during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of bonds within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Issuer and the Guarantors have agreed that, for a period of 90 days from the date of this offering memorandum, they will not, without the prior written consent of the initial purchasers, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of any other debt securities of or guaranteed by them or securities of or guaranteed by them that are convertible into, or exchangeable for, the bonds or such other debt securities (or publicly disclose the intention to make any such issuance, sale, offer, agreement, grant or disposal), subject to certain exceptions.

The bonds will constitute a new class of securities with no established trading market. We have applied to list the bonds on the Euro MTF. However, neither the Issuer nor any of the Guarantors can assure you that the prices at which the bonds will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the bonds will develop and continue after this offering. The initial purchasers have advised the Issuer and the Guarantors that they currently intend to make a market in the bonds. However, the initial purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the bonds at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, neither the Issuer nor any of the Guarantors can assure you as to the liquidity of or the trading market for the bonds.

In connection with this offering, the initial purchasers may purchase and sell bonds in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of bonds in excess of the principal amount of bonds to be purchased by the initial purchasers in this offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of bonds made for the purpose of preventing or retarding a decline in the market price of the bonds while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, it may discontinue them at any time.

The Issuer expects to deliver the bonds against payment for the bonds on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fourth business day following the date of the pricing of the bonds. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade bonds on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the bonds initially will settle in T+4, to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchasers have performed investment banking and advisory services for the Company from time to time for which it has received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantors and their affiliates in the ordinary course of their business.

The Issuer and the Guarantors have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Selling Restrictions

The bonds are offered for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.

The bonds have not been offered, sold or delivered and will not be offered, sold or delivered, directly or indirectly, and this offering memorandum or any information incorporated by reference herein or any other offering material relating to the bonds, has not been and will not be distributed in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Brazil

The bonds have not been, and will not be, registered with the CVM. The bonds may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

United Kingdom

Each of the initial purchasers severally represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any bonds in circumstances in which section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the bonds in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State at any time,

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the manager for any such offer; or

(d) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of bonds to the public” in relation to any bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the bonds to be offered so as to enable an investor to decide to purchase or subscribe the bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

The initial purchasers will not offer or sell any of our bonds directly or indirectly in Japan or to, or for the benefit of any Japanese person or to others, for re-offering or re-sale directly or indirectly in Japan or to any Japanese person, except in each case pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws and regulations of Japan. For purposes of this paragraph, “Japanese person” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Hong Kong

The initial purchasers and each of their affiliates have not (i) offered or sold, and will not offer or sell, in Hong Kong, by means of any document, our bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance or (ii) issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to our bonds which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to our securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance any rules made under that Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Singapore

This offering memorandum or any other offering material distributed by them relating to the bonds has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the bonds will be offered in Singapore pursuant to the exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for the subscription or purchase, of the bonds may not be circulated or distributed, nor may the bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the SFA, (2) to a relevant person under Section 275(1) and/or any person under Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Germany

Each person who is in possession of this offering memorandum is aware of the fact that no German sales prospectus (Verkaufsprospekt) within the meaning of the Securities Sales Prospectus Act (Wertpapier-Verkaufsprospektgesetz, the “Act”) of the Federal Republic of Germany has been or will be published with respect to our bonds. In particular, each initial purchaser has represented that it has not engaged and has agreed that it will not engage in a public offering (öffentlicher Angebot) within the meaning of the Act with respect to any of our bonds otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

France

The bonds are being issued and sold outside the Republic of France and that, in connection with their initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any bonds to the public in the Republic of France, and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France this offering memorandum or any other offering material relating to the bonds, and that such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (investisseurs qualifiés) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98 880 dated 1st October, 1998.

Netherlands

Our bonds may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to, individuals or legal entities situated in The Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institution, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter, “Professional Investors”), provided that in the offer, prospectus and in any other documents or advertisements in which a forthcoming offering of our bonds is publicly announced (whether electronically or otherwise) in The Netherlands it is stated that such offer is and will be exclusively made to such Professional Investors. Individual or legal entities who are not Professional Investors may not participate in the offering of our bonds, and this offering memorandum or any other offering material relating to our bonds may not be considered an offer or the prospect of an offer to sell or exchange our bonds.

Luxembourg

Each initial purchaser has agreed that it has not made and will not make an offer of bonds which are the subject of the offering contemplated by this offering memorandum to the public in the Grand Duchy of Luxembourg, except that it may make an offer of such bonds in Luxembourg:

- (a) in the cases described under the European Economic Area selling restrictions in which an initial purchaser can make an offer of bonds to the public in an EEA Member State (including Luxembourg); and/or
- (b) to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organizations; and/or
- (c) to legal entities which are authorized or regulated to operate in the financial markets including credit institutions, investment companies, other authorized or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and investment funds and their management companies, commodity dealers; and/or
- (d) to certain natural persons or small and medium-sized companies (as defined in the Directive 2003/71/EC) recorded in the register of natural persons or small and medium sized companies considered as qualified investors and held by the Commission de Surveillance du Secteur Financier (CSSF) as competent authority in Luxembourg in accordance with the Directive 2003/71/EC; and/or
- (e) in any other circumstances for which the Luxembourg Act of 10th July, 2005 on prospectuses for securities does not require a public offering prospectus to be established.

Portugal

Each initial purchaser has represented and agreed that the bonds may not be offered or sold in Portugal except in accordance with the requirements of the Portuguese Securities Code (Código de Valores Mobiliários as approved by the Decree-Law No. 486/99 of November 13, 1999) and the regulations governing the offer of securities issued pursuant thereto. Neither a public offer for subscription of the bonds nor a public offer for the sale of the bonds shall be promoted in Portugal.

Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1,156 of the Swiss Code of Obligations. The bonds will not be listed on the SIX Swiss Exchange and, therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the bonds may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the bonds with a view to distribution. The prospective investors must be individually approached by a dealer from time to time.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the bonds in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the bonds are made. Any resale of the bonds in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the bonds.

Representations of Purchasers

By purchasing the bonds in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the bonds without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text below under “Transfer Restrictions,” and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the bonds to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this offering memorandum during the period of distribution will have a statutory right of action for damages, or while still the owner of the bonds, for rescission against us in the event that this offering memorandum contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the bonds. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the bonds. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the bonds were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the bonds as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our and the issuer’s directors and officers as well as the experts named herein are located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the bonds should consult their own legal and tax advisors with respect to the tax consequences of an investment in the bonds in their particular circumstances and about the eligibility of the bonds for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

The validity of the bonds offered and sold in this offering will be passed upon for the Issuer by Greenberg Traurig, LLP, and for the initial purchasers by Shearman & Sterling LLP. Certain matters of Brazilian law relating to the bonds and the guarantees will be passed upon for the Issuer by Machado, Meyer, Sendacz e Opice Advogados, São Paulo, Brazil. Souza, Cescon, Barrieu & Flesch Advogados, São Paulo, Brazil, will pass upon certain matters of Brazilian law relating to the bonds and the guarantees for the initial purchasers.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

The Company's consolidated financial statements as of December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, and the effectiveness of internal control over financial reporting as of December 31, 2008, appearing in the Company's 2008 Annual Report, on Form 20-F, as amended, which has been incorporated by reference into this offering memorandum have been audited by Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm, as stated in their reports which are incorporated by reference herein.

The financial statements as of and for the year ended December 31, 2006 incorporated in this offering memorandum by reference to the 2008 Annual Report have been audited by PricewaterhouseCoopers Independent Accountants, an independent registered public accounting firm, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

1. The bonds have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP, Common Code and ISIN numbers for the bonds are as follows:

	Restricted Global Bond	Regulation S Global Bond
CUSIP	37373UAA2	U37405AA2
Common Code	046956672	046956419
ISIN	US37373UAA25	USU37405AA20

2. The Issuer has applied to list the bonds on the Luxembourg Stock Exchange.

3. Copies of the Company's audited annual financial statements for its two most recently ended fiscal years and its latest unaudited quarterly financial statements, if any, may be obtained at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent. The Issuer does not separately provide financial statements. Copies of the Issuer's by-laws, as well as the indenture (including forms of bonds and the guarantee), will be available at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent. A copy of the Issuer's by-laws may be requested, at no cost, by contacting Gerdau S.A. at the following number or address: Av. Farrapos 1811, CEP 90220-005, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number at this address is (+55-51) 3323-2000.

4. Except as disclosed in this offering memorandum, there has been no material adverse change in the Company's financial position since December 31, 2008, the date of the latest audited financial statements incorporated by reference in this offering memorandum.

5. Except as disclosed in this offering memorandum, none of the Company, the Issuer or the Guarantors is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as the Company, the Issuer or the Guarantors are aware is any such litigation or arbitration pending or threatened.

6. Copies of the Issuer's certificate of incorporation and by-laws and the *estatutos sociais* (by-laws) of each Guarantor, as well as the indenture (including forms of the bonds and the guarantee), will be available for inspection at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

7. So long as the bonds are listed on the Luxembourg Stock Exchange, the Issuer shall appoint and maintain a paying agent in Luxembourg, where the bonds may be presented or surrendered for payment or redemption, in the event that the global bonds are exchanged for definitive certificated bonds. In addition, in the event that the global bonds are exchanged for definitive certificated bonds, announcement of such exchange shall be made through the Luxembourg Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive certificated bonds, including details of the paying agent in Luxembourg.

8. In addition to being mailed to the holders, so long as the bonds are listed on the Luxembourg Stock Exchange, copies of all notices to the holders will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. Under certain circumstances the Company may apply to remove the bonds from listing on the Luxembourg Stock Exchange.

9. According to Part I, Chapter 5, Section 502 of the Rules and Regulations of the Luxembourg Stock Exchange, no transaction made on the Luxembourg Stock Exchange in respect of the bonds shall be cancelled.

10. The issuance of US\$1,250,000,000 aggregate principal amount of the bonds was authorized by the Issuer's board of directors on November 18, 2009. The execution of the guarantee relating to such bonds was authorized by the board of directors of the Company and each of the other Guarantors on November 18, 2009.

INDEX TO FINANCIAL STATEMENTS

INTERIM FINANCIAL INFORMATION

**Condensed consolidated unaudited interim financial statements of Gerdau S.A. as of September 30, 2009
(prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting)**

	Page
Condensed Consolidated Interim Financial Statements (unaudited) for the nine month period ended September 30, 2009	F-1
Notes to Condensed Consolidated Interim Financial Statements (unaudited) for the nine month period ended September 30, 2009	F-7

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

	<u>Note</u>	<u>September 30, 2009</u> (Unaudited)	<u>December 31, 2008</u>
CURRENT ASSETS			
Cash and cash equivalents		2,647,787	2,026,609
Short-term investments			
Held for Trading	4	2,446,200	2,759,486
Available for sale	4	253,828	627,151
Trade accounts receivable		2,979,230	3,683,933
Inventories	5	5,698,547	10,398,263
Tax credits		598,469	857,923
Prepaid expenses		91,036	89,262
Unrealized gains on derivatives	12	1,745	10,035
Other current assets		234,683	322,878
		<u>14,951,525</u>	<u>20,775,540</u>
NON-CURRENT ASSETS			
Long-term investments	4	57,635	77,563
Tax credits		602,194	521,441
Deferred income taxes	6	1,339,552	1,766,355
Unrealized gains on derivatives	12	98,691	68,145
Prepaid expenses		72,897	129,368
Judicial deposits		313,979	258,620
Other non-current assets		271,502	323,415
Prepaid pension cost		320,027	271,447
Investments in associates and jointly-controlled entities		1,215,151	1,775,073
Other investments		42,901	21,768
Goodwill	8	8,521,733	11,294,102
Other intangible assets	9	1,010,073	1,712,930
Property, plant and equipment, net	7	17,114,144	20,054,747
		<u>30,980,479</u>	<u>38,274,974</u>
TOTAL ASSETS		<u><u>45,932,004</u></u>	<u><u>59,050,514</u></u>

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

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

	<u>Note</u>	<u>September 30, 2009</u> (Unaudited)	<u>December 31, 2008</u>
CURRENT LIABILITIES			
Trade accounts payable		1,623,925	2,855,419
Short-term debt	10	1,959,018	3,788,085
Debentures	11	167,604	145,034
Taxes payable		738,325	517,272
Payroll and related liabilities		389,702	551,941
Dividends payable		40,818	7,820
Unrealized losses on derivatives	12	5,564	69,435
Provision for environmental liabilities		12,823	17,759
Other current liabilities		389,982	522,672
		<u>5,327,761</u>	<u>8,475,437</u>
NON-CURRENT LIABILITIES			
Long-term debt	10	13,387,983	18,595,002
Debentures	11	562,870	705,715
Deferred income taxes	6	2,210,204	3,060,268
Unrealized losses on derivatives	12	153,812	314,267
Provision for tax, labor and civil claims	13	440,527	467,076
Provision for environmental liabilities		63,682	74,996
Employees benefits		923,377	1,275,985
Put options on minority interest	12-f	530,651	698,321
Other non-current liabilities		285,517	339,869
		<u>18,558,623</u>	<u>25,531,499</u>
EQUITY			
Capital	15	14,184,805	14,184,805
Treasury stocks		(127,387)	(122,820)
Legal reserve		144,062	144,062
Stock option compensation plan		6,781	1,426
Retained earnings		5,418,942	5,099,384
Other consolidated comprehensive income		(1,576,544)	859,645
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		<u>18,050,659</u>	<u>20,166,502</u>
NON-CONTROLLING INTERESTS		<u>3,994,961</u>	<u>4,877,076</u>
EQUITY		<u>22,045,620</u>	<u>25,043,578</u>
TOTAL LIABILITIES AND EQUITY		<u>45,932,004</u>	<u>59,050,514</u>

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

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

	Note	For the Three months period ended		For the Nine months period ended	
		September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
NET SALES		6,807,904	12,443,753	20,177,204	32,488,191
Cost of sales	19	(5,301,685)	(8,353,462)	(17,078,552)	(23,285,318)
GROSS PROFIT		1,506,219	4,090,291	3,098,652	9,202,873
Selling expenses	19	(144,497)	(161,752)	(450,018)	(495,911)
General and administrative expenses	19	(375,766)	(653,552)	(1,321,168)	(1,717,901)
Impairment of assets	21	(142,834)	—	(1,222,897)	—
Other operating income	19	36,877	37,497	148,201	121,165
Other operating expenses	19	(54,779)	(273)	(109,487)	(40,887)
Equity in earnings of unconsolidated companies		5,318	94,860	(115,398)	237,567
OPERATIONAL INCOME					
BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES		830,538	3,407,071	27,885	7,306,906
Financial income	20	72,750	(25,666)	311,585	320,478
Financial expenses	20	(307,194)	(391,471)	(1,035,558)	(1,106,443)
Exchange variations, net	20	184,417	(1,055,894)	1,029,363	(453,926)
Gains and losses on derivatives, net	20	26,248	(80,396)	9,962	(43,041)
INCOME BEFORE TAXES		806,759	1,853,644	343,237	6,023,974
Income and social contribution taxes					
Current	6	(185,246)	(792,712)	(270,366)	(1,686,470)
Deferred	6	33,632	358,926	288,178	296,305
NET INCOME FOR THE PERIOD		<u>655,145</u>	<u>1,419,858</u>	<u>361,049</u>	<u>4,633,809</u>
ATTRIBUTED TO:					
Parent company's interest		553,031	967,137	375,403	3,705,115
Non-controlling interests		102,114	452,721	(14,354)	928,694
		<u>655,145</u>	<u>1,419,858</u>	<u>361,049</u>	<u>4,633,809</u>
Basic earnings per share - preferred and common	16	0.39	0.68	0.26	2.68
Diluted earnings per share - preferred and common	16	0.39	0.68	0.26	2.67

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

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

	For the Three months period ended		For the Nine months period ended	
	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
Net income for the period	655,145	1,419,858	361,049	4,633,809
Other Comprehensive Income				
Unrealized net losses on pension plan, gross of tax of R\$ (11,514)	—	—	(33,445)	—
Cumulative translation difference	(1,203,212)	2,336,683	(4,328,743)	1,267,316
Unrealized gains on net investment hedge	260,250	—	838,350	—
Unrealized (losses) gains on derivatives, gross of taxes of R\$ (3,756), R\$ (8,804), R\$ 64,438 and R\$ R\$ 7,677, respectively	(5,154)	(22,574)	179,617	19,685
Unrealized (losses) gains on available for sale securities, gross of taxes of R\$ (250), R\$ (1,351), R\$ 5,430 and R\$ (13,194), respectively	(758)	(4,093)	16,455	(39,981)
Income tax related to the components of comprehensive income	4,006	10,155	(58,354)	5,517
Other Comprehensive (loss) income for the period, net of tax	(944,868)	2,320,171	(3,386,120)	1,252,537
Total comprehensive (loss) income for the period, net of tax	<u>(289,723)</u>	<u>3,740,029</u>	<u>(3,025,071)</u>	<u>5,886,346</u>
Total comprehensive (loss) income attributed to:				
Parent company's interest	(110,596)	2,816,032	(2,060,786)	4,645,288
Non-controlling interests	(179,127)	923,997	(964,285)	1,241,058
	<u>(289,723)</u>	<u>3,740,029</u>	<u>(3,025,071)</u>	<u>5,886,346</u>

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

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

	Attributed to parent company's interest										Total parent company's interest	Non-controlling interests	Total Shareholder's Equity
	Capital	Treasury stock	Legal reserve	Stock option plan	Retained earnings	Gains and losses on pension plan	Gains and losses on available for sale securities	Gains and losses on net investment hedge	Gains and losses on derivatives	Cumulative translation difference			
Balance as of January 1, 2008	7,810,453	(106,667)	278,713	17,651	5,745,095	70,386	13,723	—	—	(1,049,333)	12,780,021	3,943,187	16,723,208
Total comprehensive income recognized in the period	—	—	—	—	3,705,115	—	(24,802)	—	7,725	957,250	4,645,288	1,241,058	5,886,346
Capital increase by issuance of shares	2,885,058	—	—	—	—	—	—	—	—	—	2,885,058	—	2,885,058
Capital increase by capitalization of reserves	3,489,294	—	(273,525)	—	(3,215,769)	—	—	—	—	—	—	—	—
Stock option expenses recognized in the period	—	—	—	5,682	—	—	—	—	—	—	5,682	—	5,682
Stock option exercised during the period	—	33,921	—	(23,680)	—	—	—	—	—	—	10,241	—	10,241
Dividends/interest on capital	—	—	—	—	(985,231)	—	—	—	—	—	(985,231)	(263,338)	(1,248,569)
Adjustment destinations proposed to the general assembly	—	—	(5,188)	—	5,188	—	—	—	—	—	—	—	—
Non-controlling interest over fair value allocation	—	—	—	—	—	—	—	—	—	—	—	3,722	3,722
Non-controlling interest on consolidated entities	—	—	—	—	(1,741)	—	—	—	—	—	(1,741)	(164,214)	(165,955)
Put options	—	—	—	—	—	—	—	—	—	—	—	274,001	274,001
Treasury stock	—	(50,259)	—	—	—	—	—	—	—	—	(50,259)	—	(50,259)
Balance as of September 30, 2008 (Unaudited)	<u>14,184,805</u>	<u>(123,005)</u>	<u>—</u>	<u>(347)</u>	<u>5,252,657</u>	<u>70,386</u>	<u>(11,079)</u>	<u>—</u>	<u>7,725</u>	<u>(92,083)</u>	<u>19,289,059</u>	<u>5,034,416</u>	<u>24,323,475</u>
Balance as of January 01, 2009	<u>14,184,805</u>	<u>(122,820)</u>	<u>144,062</u>	<u>1,426</u>	<u>5,099,384</u>	<u>(257,782)</u>	<u>(9,452)</u>	<u>(634,050)</u>	<u>(117,063)</u>	<u>1,877,992</u>	<u>20,166,502</u>	<u>4,877,076</u>	<u>25,043,578</u>
Total comprehensive income recognized in the period	—	—	—	—	375,403	(14,128)	10,371	838,350	35,435	(3,306,217)	(2,060,786)	(964,285)	(3,025,071)
Stock option expenses recognized in the period	—	—	—	7,568	—	—	—	—	—	—	7,568	—	7,568
Stock option exercised during the period	—	6,737	—	(2,213)	—	—	—	—	—	—	4,524	—	4,524
Dividends/interest on capital	—	—	—	—	(56,816)	—	—	—	—	—	(56,816)	(44,971)	(101,787)
Non-controlling interest on consolidated entities	—	—	—	—	971	—	—	—	—	—	971	85,110	86,081
Put options	—	—	—	—	—	—	—	—	—	—	—	42,031	42,031
Treasury stock	—	(11,304)	—	—	—	—	—	—	—	—	(11,304)	—	(11,304)
Balance as of September 30, 2009 (Unaudited)	<u>14,184,805</u>	<u>(127,387)</u>	<u>144,062</u>	<u>6,781</u>	<u>5,418,942</u>	<u>(271,910)</u>	<u>919</u>	<u>204,300</u>	<u>(81,628)</u>	<u>(1,428,225)</u>	<u>18,050,659</u>	<u>3,994,961</u>	<u>22,045,620</u>

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

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

	Note	For the Nine months period ended	
		September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
Cash flows from operating activities			
Net income for the period		361,049	4,633,809
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	19	1,318,601	1,265,457
Impairment of assets	19	1,222,897	—
Equity in earnings of unconsolidated companies		115,398	(237,567)
Exchange variation, net	20	(1,029,363)	453,926
(Gains) Losses on derivatives, net	20	(9,962)	43,041
Post-employment benefits		112,627	38,103
Stock based compensation		7,568	5,682
Income and social contribution taxes	6	(17,812)	1,390,165
(Gain) Loss on disposal of property, plant and equipment and investments		(7,148)	16,319
Provision for losses on available for sale securities		—	89,400
Allowance for doubtful accounts		34,360	15,501
Reversal of tax, labor and civil claims		(21,645)	(23,598)
Interest income	20	(197,543)	(198,973)
Interest expense	20	794,614	725,470
(Reversal) provision for obsolescence and fair market value adjustment		(126,861)	128,108
		<u>2,556,780</u>	<u>8,344,843</u>
Changes in assets and liabilities:			
Decrease (Increase) in trade accounts receivable		1,140,260	(1,348,671)
Decrease (Increase) in inventories		3,844,957	(3,172,309)
Decrease in trade accounts payable		(1,834,241)	(199,657)
Decrease in other receivables		79,514	583,676
Increase (Decrease) in other payables		237,857	(730,238)
Distributions from jointly-controlled entities		20,294	66,118
Purchase of trading securities		(1,279,867)	(4,910,135)
Proceeds from sale of trading securities		1,344,656	5,655,543
Cash provided by operating activities		<u>6,110,210</u>	<u>4,289,170</u>
Interest paid on loans and financing		(801,810)	(701,866)
Income and social contribution taxes paid		(175,776)	(1,098,129)
Net cash provided by operating activities		<u>5,132,624</u>	<u>2,489,175</u>
Cash flows from investing activities			
Additions to property, plant and equipment	7	(1,102,086)	(1,445,309)
Additions to other intangible assets		(81,691)	(70,815)
Payments for business acquisitions, net of cash acquired	3.5	(4,200)	(3,145,407)
Purchases of available for sale securities		(1,644,644)	—
Proceeds from sale of available for sale securities		2,034,517	114,100
Interest received on cash investments		74,121	111,751
Net cash used in investing activities		<u>(723,983)</u>	<u>(4,435,680)</u>
Cash flows from financing activities			
Capital increase		—	2,885,058
Treasury stocks		(6,779)	—
Dividends and interest on capital paid		(140,735)	(1,196,769)
Payments of deferred finance costs		(37,989)	—
Proceeds from loans and financing		1,766,873	4,227,979
Repayment of loans and financing		(4,870,098)	(3,747,841)
Intercompany loans, net		(211,958)	855,058
Net cash (used in) provided by financing activities		<u>(3,500,686)</u>	<u>3,023,485</u>
Exchange variation on cash and cash equivalents		(286,777)	78,328
Increase in cash and cash equivalents		621,178	1,155,308
Cash and cash equivalents at the beginning of period		2,026,609	2,026,096
Cash and cash equivalents at the end of period		<u><u>2,647,787</u></u>	<u><u>3,181,404</u></u>

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

NOTE 1 - GENERAL INFORMATION

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

The Condensed Consolidated Interim Financial Statements of Gerdau S.A and Subsidiaries (collectively referred to as the “Company”) were approved by the Board of Directors on November 4, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1 - Basis of Presentation

The Company’s Condensed Consolidated Interim Financial Statements for the three-month and nine month-periods ended September 30, 2009 have been prepared in accordance with the International Accounting Standard (IAS) N° 34, that establishes the content of a condensed interim financial statement. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements of Gerdau S.A., as of December 31, 2008, which were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by IASB.

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

The same accounting policies and methods of calculation were used in these Condensed Consolidated Interim Financial Statements as they were applied in the Consolidated Financial Statements as of December 31, 2008, except for reviewing the estimates related to the method of depreciation as described in Note 7.e, and the impact of the adoption of standards and interpretations of rules described below.

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

Some new IASB accounting procedures and IFRIC interpretations were issued and/or reviewed and have their optional or mandatory adoption for the period beginning on January 1, 2009. The Company’s assessment on the impact of these new procedures and interpretations is as follows:

Standards and Interpretations in force and or adopted in advance

IFRS 8 — Operating Segments

In November 2006, the IASB issued the IFRS 8, which specifies disclosures of information about operating segments in the annual financial information and amends IAS 34 “Interim Financial Information”, which requires that an entity report selected financial information about its operating segments in interim financial information. This standard defines an operating segment as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. This statement also specifies requirements for disclosures related to products and services, geographical areas, and main customers and is effective for years beginning on or after January 1, 2009. The adoption of this standard resulted in a more detailed disclosure information about segments.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

IAS 23 — Borrowing Costs

The IASB issued a revised version of IAS 23 in March 2007, which deals with inclusion of borrowing costs that apply to the acquisition, building, or production of an asset. The Company is required to implement this regulation for years beginning on or after January 1, 2009. The adoption of this amendment did not have an impact in the Company's Consolidated Financial Statements.

IFRIC 13 - Customer Loyalty Programs

In June 2007, the IFRIC issued Interpretation 13, which deals with loyalty programs used by entities to offer customers incentives for purchasing products and services. The entity is required to implement this Interpretation for years beginning on or after July 1, 2008. The adoption of this Interpretation did not have an impact in the Company's Consolidated Financial Statements.

IAS 1 — Presentation of Financial Statements

The IASB amended IAS 1 in September 2007 and this change went into effect for years beginning on or after January 1, 2009. This modification deals with the way in which dividends are disclosed and presentation of the statement of comprehensive income, as well as addresses other aspects related to the Consolidated Financial Statements. The adoption of this amendment resulted in the presentation of the statement of comprehensive income as well as other aspects related to the presentation of the Company's Consolidated Financial Statements.

IFRS 2 — Share-based Payment

In January 2008, the IASB issued changes to IFRS 2 that deal with definitions for acquiring rights and dictate treatment for an award that is cancelled. Changes are effective for years beginning on or after January 1, 2009. The adoption of this amendment did not have an impact in the Company's Consolidated Financial Statements.

IFRS Annual improvements of May 2008

In May 2008, the IASB issued revised versions for the IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 34, IAS 36, IAS 38, IAS 40 and IAS 41. These changes are effective beginning on January 1, 2009. The adoption of this amendment did not have an impact in the Company's Consolidated Financial Statements.

IFRIC 15 — Agreements for the Construction of Real Estate

In July 2008, the IFRIC issued Interpretation 15, which deals with accounting policies for recognizing revenues from property sold by contractors before building of the unit is finished. The entity is required to implement this Interpretation for years beginning on or after January 1, 2009. The adoption of this Interpretation did not have a significant impact in the Company's Consolidated Financial Statements.

IFRS 7 - Financial instruments: Disclosures

In March 2009, the IASB revised IFRS 7, which deals with new disclosures about measurement of fair value and liquidity risks. The entity is required to implement this change for years beginning on or after January 01, 2009. The adoption of this standard resulted in more details about data explained above, as described in note 12.h.

Standards and Interpretations of standards not yet in force

IAS 27 — Consolidated and Separate Financial Statements

In January 2008, the IASB issued a revised version of IAS 27, whose changes are related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. This amended Standard must be applied to years beginning on or after July 1, 2009. The Company is evaluating the effects of implementing the changes of this standard.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

IFRS 3 — Business Combinations

In January 2008, the IASB issued a revised version of the IFRS 3 and changes are effective for years beginning on or after July 1, 2009. The Company is evaluating the effects of implementing the changes of this standard.

IAS 39 — Financial Instruments: Recognition and Measurement

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

IFRIC 17 — Distributions of Non-cash Assets to Owners

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

IFRIC 18 — Transfers of Assets from Customers

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

IAS 39 e IFRIC 9 - Embedded Derivatives

In March 2009, the IASB revised IAS 39 and IFRIC 9, which deal with aspects related to the recognition of derivatives. The entity is required to implement these changes for years beginning on or after June 30, 2009. The Company is evaluating the effects of implementing the changes of these regulations.

IFRS Annual improvements of April 2009

In April 2009, the IASB revised various standards and interpretations as follows: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 e IFRIC 16. The changes in the standards IFRS 2 and IAS 38 and interpretations IFRIC 9 and IFRIC 16 are effective for years beginning on or after July 01, 2009. The other changes in standards are effective for years beginning on or after January 01, 2010. The Company is evaluating the effects of implementing the changes of these regulations.

IFRS 2 — Share-based Payment

In June 2009, the IASB revised rule IFRS 2, which deals with share based payments settled in cash or other assets, or by the issuance of equity instruments. This change is effective for years beginning on or after January 01, 2010. The Company is evaluating the effects of implementing the change of this standard.

IFRS 1 — Additional Exemptions for First-time adopters

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

IAS 32 — IFRS Classification of Rights Issues: Amendment to IAS 32

In October 2009, the IASB revised IAS 32, which deals with contracts that will or may be settled in the entity's own equity instruments and establish that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments. This change is effective for years beginning on or after February 01, 2010. The Company is evaluating the effects of implementing the change of this standard.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

IAS 24 —Related Party Disclosures

In November 2009, the IASB revised IAS 24, which deals with disclosures of transactions with related parties and relationships between parents and subsidiaries. This change is effective for years beginning on or after January 01, 2011. The Company is evaluating the effects of implementing the change of this standard.

NOTE 3 — CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

3.1 - Subsidiaries

The Company did not have changes of participation in controlled companies during the period ended September 30, 2009.

3.2 - Jointly-Controlled Entities

The Company did not have changes of participation in jointly-controlled entities during the period ended September 30, 2009.

3.3 — Associate companies

The Company did not have changes of participation in associate companies during the period ended September 30, 2009.

3.4 - Acquisitions of companies (subsidiaries and jointly-controlled entities)

a) Maco Metalúrgica Ltda.

On January 6, 2009 the Company through its subsidiary Gerdau Aços Longos S.A. entered into an agreement to acquire 100% of Maco Metalúrgica Ltda. for R\$ 4.2 million. Maco Metalúrgica performs, among others, activities of production and selling of steel cold drawn wire and steel welded mesh. On June 4, 2009 the acquisition was completed.

3.5 - Total cash paid for the acquisitions in the period ended

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Acquired companies / interests		
Maco Metalúrgica Ltda.	4,200	—
Trefilados Bonati S.A.	—	12,307
Diaco S.A.	—	188,693
Century Steel, Inc.	—	325,626
Cleary Holdings Corp.	—	119,350
Corsa Controladora, S.A de C.V.	—	186,284
Estructurales Corsa S.A.P.I. de C.V.	—	23,566
Kalyani Gerdau Steel Ltd.	—	84,091
Corporación Centroamericana del Acero S.A.	—	303,696
Gerdau MacSteel Inc.	—	2,434,062
Distribuidora y Comercializadora de Aceros Regionales Limitada	—	8,578
Rectificadora del Vallés	—	81,000
Vicente Gabilondo e Hijos, S.A.	—	35,000
Hearon Steel Co.	—	24,225
K.e.r.s.p.e. Empreendimentos e Participações Ltda	—	45,000
Total purchase price considered as paid	4,200	3,871,478
Less: Cash and cash equivalents of acquired companies:	—	(726,071)
	<u>4,200</u>	<u>3,145,407</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

3.6 - Allocation of fair value to subsidiaries or jointly-controlled entities

a) Corsa Controladora, S.A. de C.V.

In February 2009, the Company completed the evaluation of the fair value of assets and liabilities of the Company Corsa, S.A. de C.V. allocating part of the goodwill of R\$ 0.7 million in the “Investment in associates and jointly-controlled entities” account.

This investment is recorded under the equity method, therefore, the allocation of the fair value of assets and liabilities of the acquired company is not consolidated and has effect only through a reclassification of goodwill originally recognized. Additionally, the amount from the amortization of the fair value allocation will be recognized in income of the Company in the “Equity in earnings of unconsolidated companies” account.

The amount of goodwill on acquisition recorded by the Company was due to the following:

- This partnership strengthens the Company presence in the third largest steel consumer market in the Americas and allows the Company to continue to be a consolidator of the global steel industry.
- The rapidly growing steel industry consolidation all over the world has resulted in a significant increase in acquisition prices.
- The Company believes it will be able to successfully integrate Corsa Controladora, S.A. de C.V. operations and achieve synergies from the acquisition.

b) Gerdau MacSteel Inc.

In March 2009, the Company completed the evaluation of the fair value of assets and liabilities of Gerdau MacSteel Inc., allocating part of the goodwill of R\$ 1.7 million during the period.

The following table presents the estimated fair value of the assets and liabilities of Gerdau MacSteel Inc., as of the acquisition date:

	<u>Book Value</u>	<u>Acquisition Adjustments</u>	<u>Fair value upon acquisition</u>
Net assets (liabilities) acquired			
Current assets	750,404	132,543	882,947
Property, plant and equipment	397,986	455,291	853,277
Intangible assets	33,042	315,249	348,291
Non-current assets	50,400	(1,047)	49,353
Goodwill	11,072	1,582,835	1,593,907
Current liabilities	(588,272)	(313,105)	(901,377)
Non-current liabilities	(95,272)	(297,064)	(392,336)
	<u>559,360</u>	<u>1,874,702</u>	<u>2,434,062</u>
Total purchase price considered			<u>2,434,062</u>

Upon the acquisition, the Company recorded goodwill due to the following:

- The rapidly growing global steel industry consolidation has resulted in a significant increase in acquisition prices.
- Gerdau strengthens its position as a global supplier of specialty steels (SBQ).
- The acquisition of MacSteel will open new opportunities for growth in specialty long steels in the United States, which is one of the largest and most traditional automotive industry markets in the world. MacSteel produces SBQ and around 80% of its production is intended for the automotive industry.
- The Company believes it will be able to successfully integrate MacSteel’s operations and achieve synergies from the acquisition

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

c) Kalyani Gerdau Steel Ltd. (SJK Steel Plant Limited)

In March 2009, the Company completed the evaluation of the fair value of assets and liabilities of the Kalyani Gerdau Steel Ltd. and recognized goodwill of R\$ 35.0 million.

This investment is recorded under the equity method, therefore, the allocation of the fair value of assets and liabilities of the acquired company is not consolidated and has effect only through a reclassification of goodwill originally recognized.

NOTE 4 - SHORT AND LONG-TERM INVESTMENTS

Held for trading

Held for trading securities include Bank Deposit Certificates and marketable securities investments, which are stated at their fair value. Income generated by these investments is recorded as financial income. On September 30, 2009 the Company held R\$ 2,446,200 (R\$ 2,759,486 as of December 31, 2008) in trading securities.

Available for sale securities

As of September 30, 2009 the Company held R\$ 253,828 (R\$ 627,151 as of December 31, 2008) in available for sale securities in current assets and R\$ 57,635 (R\$ 77,563 as of December 31, 2008) in non-current assets, net of provision for losses.

Gerdau Ameristeel

The subsidiary Gerdau Ameristeel invests its excess of cash in highly liquid securities classified as available for sale and which are recorded at fair value. On September 30, 2009 R\$ 242,758 had been invested in these types of securities.

In previous years, the subsidiary Gerdau Ameristeel invested its excess of cash in variable interest rate bonds called "Auction Rate Securities" which are recognized as available for sale securities. On September 30, 2009 Gerdau Ameristeel had US\$ 32.4 million (R\$ 57.6 million) in investments of this nature. These securities could not be sold over the past few months because sales orders exceeded purchase orders. As a result of this, Gerdau Ameristeel is not able to sell these investments until a future auction is successful, the issuer decides to redeem these securities, or if the securities reach their redemption date in 2025. Even though Gerdau Ameristeel intends to sell these investments as soon as market liquidity returns, Gerdau Ameristeel reclassified these investments from current to non-current assets. Gerdau Ameristeel uses appraisal methods that include projected cash flow and similar transactions due to the lack of similar market transactions for measuring the value of this investment. On September 30, 2009, as a result of such analysis and other factors related to impairment of assets, Gerdau Ameristeel did not recognize any loss in the "Financial expense" account, compared to the same period of 2008 in which it has recognized a loss of US\$ 46.7 million (R\$ 89.4 million on September 30, 2008). These securities will be analyzed each quarter so that possible new deterioration can be recognized as well as to ensure a correct classification in the balance sheet.

Other available for sale securities

As of September 30, 2009 other available-for-sale securities totaled R\$ 11,070, which were recorded at their fair value and referred principally to short-term investments held by Gerdau MacSteel (Money Market Funds) in the amount of US\$ 4,991 (R\$ 8,874). These investments are valued based on market quotations and the Company does not intend to hold these securities as permanent investments.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

NOTE 5 - INVENTORIES

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Finished products	1,559,013	3,196,529
Work in progress	1,358,099	2,456,781
Raw materials	1,262,898	2,629,945
Storeroom supplies	1,309,762	1,715,362
Advances to suppliers	261,788	206,323
Imports in transit	134,808	547,754
(-) Provision for obsolescence and market value adjustment	(187,821)	(354,431)
	<u>5,698,547</u>	<u>10,398,263</u>

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

Balance as of December 31, 2007	(40,867)
Write-offs	33,393
Provision for the year	(289,850)
Exchange rate variation	(57,107)
Balance as of December 31, 2008	(354,431)
Reversion of provision	190,021
Provision for the year	(63,160)
Exchange rate variation	39,749
Balance as of September 30, 2009	<u>(187,821)</u>

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

The amounts of R\$ 17,078,552 and R\$ 23,285,318, were recognized, respectively, as cost of sales and freight during the nine months period ended September 30, 2009 and 2008. For the nine months period ended September 30, 2009 and 2008 the cost of sales includes, respectively, the amounts of R\$ 14,387 and R\$ 5,526 related to inventories permanently written off and, respectively, the amounts of R\$ 63,160 and R\$ 133,634 related to the recognition of a provision for obsolescence and adjustment to market value.

NOTE 6 — INCOME AND SOCIAL CONTRIBUTION TAXES

The Company's subsidiaries in Brazil received R\$ 33,457 as of September 30, 2009 (R\$ 44,387 as of September 30, 2008) of tax incentives in the form of income tax credits, related to technological innovation, funds for the rights of children and adolescents, PAT (Workers' Meal Program), and cultural and artistic activities. The units of the subsidiary Gerdau Aços Longos S.A., located in the northeast region of Brazil, will receive until 2013, a 75% reduction in income tax on operating profit, which represented R\$ 39,664 as of September 30, 2009 (R\$ 61,638 as of September 30, 2008). The respective tax incentives were recorded directly in the income and social contribution tax account in the statement of income.

As of September 30, 2009, the Company had total tax loss carryforwards arising from its operations in Brazil of R\$ 686,939 for income tax (R\$ 253,828 as of December 31, 2008) and R\$ 756,983 for social contribution tax (R\$ 315,378 as of December 31, 2008), representing a deferred tax asset of R\$ 239,863 (R\$ 91,841 as of December 31, 2008). The Company believes that the amounts will be realized based on future taxable income. In addition to these deferred tax assets, the Company has not recorded a portion of the tax asset of R\$ 25,423 (R\$ 50,762 as of December 31, 2008), due to the lack of opportunity to use the tax loss carryforwards in one of its subsidiaries. Notwithstanding, these tax loss carryforwards do not have an expiration date.

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
	<u>Total</u>	<u>Total</u>
Income before income taxes	343,237	6,023,974
Statutory tax rates	34%	34%
Income and social contribution taxes at statutory rates	(116,701)	(2,048,152)
Tax adjustment with respect to:		
- difference in tax rates in foreign companies	(43,324)	(168,611)
- equity in subsidiaries	(39,236)	80,773
- interest on equity	12,190	262,530
- tax incentives	73,121	106,024
- tax deductible goodwill recorded in statutory books	218,613	215,794
- permanent differences (net)	(86,851)	161,477
Income and social contribution taxes	<u>17,812</u>	<u>(1,390,165)</u>
Current	(270,366)	(1,686,470)
Deferred	288,178	296,305

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

a) Summary of changes in property, plant and equipment — during the nine-month period ended September 30, 2009, acquisitions amounted to R\$ 1,102,086 (R\$ 1,445,309 as of September 30, 2008), and disposals amounted to R\$ 48,462 (R\$ 59,256 as of September 30, 2008).

b) Capitalized borrowing costs — borrowing costs capitalized during the nine-month period ended September 30, 2009 amounted to R\$ 65,717 (R\$ 84,826 as of September 30, 2008).

c) Guarantees — property, plant and equipment have been pledged as collateral for loans and financing in the amount of R\$ 563,901 as of September 30, 2009 (R\$ 693,154 as of December 31, 2008).

d) Impairment of property, plant and equipment — The Company carried out impairment tests on its property, plant and equipment as discussed in Note 21.

e) Depreciation method - In accordance with IAS 16 — Property, plant and equipment, the Company reviewed in 2009 the depreciation method of its property, plant and equipment, adjusting the straight line method of depreciation to the utilization level of certain assets, basically machinery and equipments, which had its useful lives increased due to lower levels of utilization. Changes in the depreciation method shall be accounted for as a change in an accounting estimate in accordance with IAS 16 and, therefore, the effects shall be recognized prospectively as established by IAS 8. The depreciation for the nine months period ended September 30, 2009 was reduced in R\$ 236,177 (R\$ 153,999 net of tax).

NOTE 8 — GOODWILL

The changes in goodwill are as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Initial Balance	11,294,102	6,043,396
(+) Exchange variation	(2,491,907)	2,529,320
(+) Additions	14,442	2,775,351
(-) Write-off / Impairment	(294,904)	(53,965)
Final Balance	<u>8,521,733</u>	<u>11,294,102</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

The amount of goodwill by segment is as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Brazil	364,893	464,699
Specialty Steels	1,979,016	2,807,117
Latin American	632,821	756,041
North America	5,545,003	7,266,245
	<u>8,521,733</u>	<u>11,294,102</u>

The company evaluated the recoverability of goodwill as disclosed in Note 21.

NOTE 9 — OTHER INTANGIBLE ASSETS

Other intangible assets refer basically to customer contracts and relationships arising from the acquisition of companies:

	<u>Carbon Emission Reduction Certified</u>	<u>Customer contracts and relationships and others</u>	<u>Total</u>
Balance as of January 01, 2008	6,564	1,067,151	1,073,715
Exchange variation	3,154	473,487	476,641
Acquisition	25,843	431,238	457,081
Disposal	(12,709)	(47,891)	(60,600)
Amortization	—	(233,907)	(233,907)
Balance as of December 31, 2008	22,852	1,690,078	1,712,930
Exchange variation	(4,183)	(351,570)	(355,753)
Acquisition	—	110,142	110,142
Disposal / Impairment	—	(276,541)	(276,541)
Amortization	(10,232)	(170,473)	(180,705)
Balance as of September 30, 2009	<u>8,437</u>	<u>1,001,636</u>	<u>1,010,073</u>
Estimated useful lives	Undefined	5 to 15 years	

The company evaluated the recoverability of intangible assets as disclosed in Note 21.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

NOTE 10 — LOANS AND FINANCING

Loans and financing are as follows:

	Annual charges (*)	September 30, 2009	December 31, 2008
Short term financing in Brazilian reais			
Working capital	6.90%	130,464	50,643
Short term financing in foreign currency			
Working capital (US\$)	4.39%	493,395	942,366
Working capital (€)	2.22%	227,242	444,409
Working capital (Clp\$)	1.20%	10,905	103,690
Working capital (Cop\$)	9.97%	124,724	304,264
Working capital (PA\$)	13.69%	605	77,132
Working capital (Mxn\$)	5.79%	7,235	—
Financing of property, plant and equipment and others (US\$)	2.92%	6,368	7,308
		1,000,938	1,929,812
Plus current portion of long-term financing		958,080	1,858,273
Short term financing plus current portion of long-term financing		1,959,018	3,788,085
Long-term financing in Brazilian reais			
Working capital	2.79%	110,847	84,289
Financing of property, plant and equipment	3.74%	1,864,300	1,866,491
Financing of investment	8.77%	322,364	663,984
Long-term financing in foreign currency			
Working capital (US\$)	3.54%	195,249	568,491
Working capital (€)	2.22%	571,880	1,117,699
Working capital (Mxn\$)	5.79%	13,689	—
Working capital (COP\$)	9.97%	272,151	210,258
Bearer bonds (Perpetual bonds and <i>Senior Notes</i>) (US\$)	10.14%	1,068,964	2,341,672
Advances on export contracts (US\$)	5.91%	253,873	701,324
Financing of investment (US\$)	5.23%	8,866,349	10,565,918
Financing of property, plant and equipment and others (US\$)	7.43%	806,397	2,333,149
		14,346,063	20,453,275
Less: current portion		(958,080)	(1,858,273)
Long term financing minus current portion		13,387,983	18,595,002
Total financing		15,347,001	22,383,087

(*) Weighted average effective interest costs on September 30, 2009.

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

Summary of loans and financing by currency:

	September 30, 2009	December 31, 2008
Brazilian Real (R\$)	2,427,975	2,665,407
U.S. Dollar (US\$)	11,690,595	17,460,228
Euro (€)	799,122	1,562,108
Colombian Peso (Cop\$)	396,875	514,522
Argentine Peso (PA\$)	605	77,132
Chilean Peso (Clp\$)	10,905	103,690
Mexican Peso (Mxn\$)	20,924	—
	15,347,001	22,383,087

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
2010	598,646	2,312,351
2011	2,487,148	4,134,453
2012	3,824,373	4,240,816
2013	1,448,714	1,758,753
After 2013	5,029,102	6,148,629
	<u>13,387,983</u>	<u>18,595,002</u>

Covenants

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

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

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

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

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

All covenants mentioned below are calculated based on the Consolidated Financial Statements under IFRS of Gerdau S.A., except item IV, which refers to the stand-alone financial statements of Metalúrgica Gerdau S.A. according to BR GAAP, as described below:

I) Consolidated Interest Coverage Ratio — measures the interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio indicates that the EBITDA for the last 12 months should represent at least 3 times of the interest expense of the same period. As of September 30, 2009 such covenant was 2.4 times;

II) Consolidated Leverage Ratio — measures the level of gross debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). The contractual ratio indicates that the gross debt should not surpass 4 times the EBITDA for the last 12 months. As of September 30, 2009 such covenant was 4 times;

III) Required Minimum Net Worth — measures the minimum net worth required in financial agreements. The contractual ratio indicates that the Net Worth must be greater than R\$ 3,759,200. As of September, 2009 such level was R\$ 22,045,620; and

IV) Current Ratio — measures the company's ability in fulfilling its short term obligations. The contractual terms indicates that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of September 30, 2009 the current ratio was 1.1 times.

Due to non-compliance of the original financial covenant described on item I above, comes into force, starting September 30, 2009, the temporary covenant reset, valid up to September 30, 2010, as described below:

- a) Consolidated Interest Coverage Ratio — EBITDA for the last twelve months should represent at least 2.5 times of the net interest expense (interest expense minus interest income) of the same period. As of September 30, 2009 such covenant was 3.4 times;

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

- b) Consolidated Leverage Ratio — Net debt (gross debt minus cash and cash equivalents) should not surpass 5 times EBITDA for the last 12 months. As of September 30, 2009 such covenant was 2.7 times;
- c) Maximum Gross Debt of US\$ 11 billion. As of September 30, 2009 such level was US\$ 8.6 billion.

Pursuant to the financial agreements, the penalty for non-compliance with such financial covenants is the possibility of declaration of default by the creditors and loans having its maturity accelerated.

NOTE 11 - DEBENTURES

Issuance	General Meeting	Quantity as of September 30, 2009		Maturity	Annual Charges (*)	September 30, 2009	December 31, 2008
		Issued On	Portfolio				
3 ^a - A e B	May 27, 1982	144,000	77,482	06/01/2011	CDI	115,702	141,406
7 ^a	July 14, 1982	68,400	58,401	07/01/2012	CDI	33,999	35,729
8 ^a	November 11, 1982	179,964	62,664	05/02/2013	CDI	278,326	298,186
9 ^a	June 10, 1983	125,640	55,468	09/01/2014	CDI	38,201	13,800
11 ^a - A e B	June 29, 1990	150,000	121,930	06/01/2020	CDI	96,642	87,222
						562,870	576,343
Aços Villares S.A.	September 1, 2005	28,500	—	09/01/2010	104,5% DI	167,604	274,406
Total Consolidated						730,474	850,749
Current						167,604	145,034
Non-current						562,870	705,715

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

NOTE 12 - FINANCIAL INSTRUMENTS

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

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

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

	September 30, 2009		December 31, 2008	
	Book Value	Market Value	Book Value	Market Value
Cash and cash equivalents	2,647,787	2,647,787	2,026,609	2,026,609
Short-term investments	2,757,663	2,757,663	3,464,200	3,464,200
Trade accounts receivable	2,979,230	2,979,230	3,683,933	3,683,933
Trade accounts payable	1,623,925	1,623,925	2,855,419	2,855,419
Imports financing	1,773,931	1,773,931	2,328,138	2,328,138
Prepayment financing	244,537	244,537	345,840	345,840
Senior Notes	—	—	939,472	928,691
Perpetual bonds	1,068,964	1,082,863	1,404,965	1,182,195
Ten Years Bonds	2,753,092	2,915,524	3,554,918	3,155,583
Other financing	9,506,477	9,506,477	13,809,754	13,809,754
Debentures	730,474	730,474	850,749	850,749
Related parties (assets)	75,207	75,207	59,092	59,092
Related parties (liabilities)	8,738	8,738	660	660
Unrealized gains on derivatives	100,436	100,436	78,180	78,180
Unrealized losses on derivatives	159,376	159,376	383,702	383,702
Other accounts receivable	430,978	430,978	587,201	587,201
Other accounts payable	666,761	666,761	954,636	954,636
Long-term incentive plan	—	50,370	—	37,785
Put options on minority interest	530,651	530,651	698,321	698,321

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

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

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

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

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

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

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

Capital management risk: this risk comes from the Company's choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology has been used in the last 5 years to elaborate strategic maps with objectives and indicators of the main processes. The KPIs (Key Performance Indicators) related to the objective "Capital Structure Management" are: WACC (Weighted Average Cost of Capital), Total Indebtedness/EBITDA, Interest Coverage Ratio, and Indebtedness/Equity Ratio. The Total Debt is composed of loans and financing (note 10) and debentures (note 11). The Company can change its capital structure depending on economic-financial conditions in order to optimize its financial leverage and its debt management. At the same time, the Company tries to improve its ROCE (Return on Capital Employed) by implementing a working capital management process and an efficient fixed asset investment program.

Liquidity risk: the Company's management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 10 and 11, respectively.

Foreign currency sensitivity analysis: the Company is exposed to variations in foreign currency, especially in loans and financing. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian real and the foreign currencies on such outstanding loans and financing on the date of the Condensed Consolidated Interim Financial Statements. The impact calculated considering such variation in the foreign exchange rate totals R\$ 178,278 as of September 30, 2009 (R\$ 325,140 as of December 31, 2008). The Company believes that the dollar depreciation against the Brazilian Real for the fourth semester will be 1.5%.

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

Interest rate sensitivity analysis: the Company is exposed to interest rate risks in its loans and financing and debentures. The sensitivity analysis made by the Company considers the effects of an increase or reduction of 0.1% on outstanding loans and financing and debentures on the date of the Condensed Consolidated Interim Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 66,434 as of September 30, 2009 (R\$ 87,564 as of December 31, 2008). Because of strong reductions in international interest rates, such as Libor, which occurred around the world because of the crisis, the Company believes that in the long term, the curves of interest rates can increase again with the economic recovery.

Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production: the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sales price of the Company's products and the price of raw materials and other inputs used in the production process, especially because the Company operates in a commodities market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold and raw materials and other inputs totals R\$ 81,269 as of September 30, 2009 (R\$ 149,340 as of September 30, 2008). The company and its subsidiaries do not have hedges for commodities.

Sensitive analysis of interest rate swaps: the Company has an interest rate swaps exposure for some of its loans and financing. The sensitive analysis calculated by the Company considers the effects of either an increase or a decrease of 0.10% in the interest curve (Libor), and its impacts in the swaps mark to market. The calculated impact considering this interest rate variation is, as of September 30, 2009, approximately US\$ 8.3 million (R\$ 14,758 as of September 30, 2009) which represents an increase or a decrease in these swaps mark to market.

Sensitive analysis of currency swaps and NDF's (Non Deliverable Forwards): the Company has currency swaps (*cross currency swaps*) and NDF's exposure to some of its assets and liabilities. The sensitive analysis calculated by the Company considers an effect of a 5% Real depreciation or appreciation against these currencies and its effects on these derivatives mark to market. The calculated impact considering this currency rate variation is, as of September 30, 2009, approximately US\$ 9 million (R\$ 16,002 as of September, 2009), which represents an increase or a decrease in these swaps mark to market

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

d) Financial Instruments per Category

Summary of the financial instruments per category:

September 30, 2009		Financial assets at fair value through profit and loss	Available for sale	Total
<u>Assets</u>	<u>Loans and receivables</u>			
Short and long-term investments	—	2,446,200	311,463	2,757,663
Unrealized gains on derivatives	—	100,436	—	100,436
Trade accounts receivable	2,979,230	—	—	2,979,230
Related parties	75,207	—	—	75,207
Other accounts receivable	430,978	—	—	430,978
Cash and cash equivalents	2,647,787	—	—	2,647,787
Total	6,133,202	2,546,636	311,463	8,991,301

	Liabilities at market value with gains and losses recognized in the income	Liabilities at fair value with gains and losses recognized in shareholder's equity	Other financial liabilities at amortized cost	Total
<u>Liabilities</u>				
Trade accounts payable	—	—	1,623,925	1,623,925
Imports financing	—	—	1,773,931	1,773,931
Prepayment financing	—	—	244,537	244,537
Ten Years Bonds	—	—	2,753,092	2,753,092
Perpetual bonds	—	—	1,068,964	1,068,964
Other financing	—	—	9,506,477	9,506,477
Debentures	—	—	730,474	730,474
Related parties	—	—	8,738	8,738
Other accounts payable	—	—	666,761	666,761
Put options on minority interest	—	—	530,651	530,651
Unrealized losses on derivatives	119,369	40,007	—	159,376
Total	119,369	40,007	18,907,550	19,066,926

December 31, 2008		Financial assets at fair value through profit and loss	Available for sale	Total
<u>Assets</u>	<u>Loans and receivables</u>			
Short-term investments	—	2,837,049	627,151	3,464,200
Unrealized gains on derivatives	—	78,180	—	78,180
Trade accounts receivable	3,683,933	—	—	3,683,933
Related parties	59,092	—	—	59,092
Other accounts receivable	587,201	—	—	587,201
Cash and cash equivalents	2,026,609	—	—	2,026,609
Total	6,356,835	2,915,229	627,151	9,899,215

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

Liabilities	Liabilities at market value with gains and losses recognized in the income	Liabilities at fair value with gains and losses recognized in shareholder's equity	Other financial liabilities at amortized cost	Total
Trade accounts payable	—	—	2,855,419	2,855,419
Imports financing	—	—	2,328,138	2,328,138
Prepayment financing	—	—	345,840	345,840
Senior Notes	—	—	939,472	939,472
Perpetual bonds	—	—	1,404,965	1,404,965
Other financing	—	—	17,364,672	17,364,672
Debentures	—	—	850,749	850,749
Related parties	—	—	660	660
Other accounts payable	—	—	954,636	954,636
Put options on minority interest	—	—	698,321	698,321
Unrealized losses on derivatives	228,517	155,185	—	383,702
Total	228,517	155,185	27,742,872	28,126,574

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

e) Operations with derivative financial instruments

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

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

Funding is never done in a currency in which there is no corresponding cash generation as established by internal policy.

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

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

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

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

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

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

Non Deliverable Forwards: The subsidiary Aços Villares S.A. has sale of NDFs designated as cash flow hedge with a notional value of US\$ 116.6 million, equivalent to R\$ 207.326 as of September 30, 2009 that takes on the average PTAX from the month before it is due and the bank adopts a fixed US dollar rate for the maturity date. The total is distributed into tranches in order to cover income from exporting rolls and the last one is due on January 1, 2011. The fair value of this contract, which represents the settlement amount if the contract were finalized on September 30, 2009, is a net gain of R\$ 2,409. Changes in the fair value of the effective portion of the hedging instrument were recognized in a specific account of Equity in the amount of R\$ 29,693 (net of taxes). Counterparts to this transaction include Banco Itaú S.A., UBS Pactual, and Unibanco S.A.

The subsidiary Diaco S.A. paid NDFs (Non Deliverable Forwards) that matured on April 6, 2009 in order to protect itself from the exchange fluctuations of the US dollar in relation to the local currency linked to scrap purchases and other inputs used in the steel making process. The settlement amount of this contract was a gain of R\$ 3,180 and was recorded in the consolidated statement of income in the "Gains and losses with derivatives, net" account.

The subsidiary, Siderurgica del Perú S.A.A. (Siderperú), finalized the NDFs that matured on July 17, 2009. This transaction was entered into due to the foreign exchange exposure on financing in dollars with Continental Bank. The settlement amount of this contract was a net loss of R\$ 2.341 and was recorded in the consolidated statement of income in the "Gains and losses with derivatives, net" account.

The subsidiary Gerdau Aza S.A. contracted the sale of NDF, with the notional amount of US\$ 614 thousand (R\$ 1,091 as of September, 2009) and maturities on October 2, 2009. This NDF has been contracted in order to hedge against exchange fluctuations in the US dollar in relation to the local currency, which can impact the revenue of their exports and thereby adversely affect the margin. The fair value of this contract, which represent the settlement amount if the contract was settled on September 30, 2009, is a loss of R\$ 40. The counterpart for this transaction is Banco CorpBanca e Security. Changes in the fair value were recorded in the consolidated statement of income in the "Gains and losses with derivatives, net" account.

The subsidiary Salomon Sack S.A. settled its NDF that matured on September 21, 2009. This NDF has been contracted in order to hedge against exchange fluctuations in the US dollar in relation to the local currency, in relation to the local currency linked to scrap purchases and other inputs used in the steel making process (Billets). The settlement amount of this contract was a net gain of R\$ 130 and was recorded in the consolidated statement of income in the "Gains and losses with derivatives, net" account.

Swap Contracts

Interest rate swap

The subsidiary Aços Villares S.A. has swaps in the amount of US\$ 49,8 million (R\$ 88,549 as of September 30, 2009) in which the financial charges for export pre-payment contracts equivalent to LIBOR plus a spread are swapped for prefixed interest rates. The fair value of this contract, which represents the settlement amount if the contracts were finalized on September 30, 2009, is a net loss of R\$ 3,556. Counterparts for these transactions include Unibanco and ABN Amro Bank.

The subsidiary, Gerdau Açominas S.A., entered into an interest rate swap contract whereby it receives a variable interest rate based on LIBOR and pays a fixed interest rate in US dollars. These contracts have a nominal value of US\$ 157.2 million (R\$ 279,517 as of September 30, 2009) and a maturity dates between June 15, 2010 and November 30, 2011. These swaps were contracted in order to eliminate the interest rate variation risk (LIBOR) since the Company took on debts in dollars at floating rates in the same amount as the swap. The fair value of these contracts, which represents the settlement amount if the contracts were settled as of September 30, 2009, is a net loss of R\$ 13,771. Counterparts to this transaction are JP Morgan and Citibank.

The Company through its subsidiary GTL Equity Investments Corp. contracted exchange swaps based on the LIBOR with the bank JP Morgan with maturity dates between September 21, 2009 and December 21, 2011. The nominal values of these

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

contracts together were US\$ 300 million (R\$ 533,430 as of September 30, 2009). These operations were entered into in order to optimize the financial cost of the Company's Guaranteed Perpetual Senior Securities based on the difference between the internal interest rate (exchange coupon) and the external interest rate (LIBOR). Because of this, the Company increases its exposure to the Brazil's risk, however, this risk is related to its business and, moreover, the Company has assets in dollar that justify this operation. The fair values of these contracts, which represent the settlement amount if the contracts were settled as of September 30, 2009, are a loss of R\$ 33,767 and a gain of R\$ 31,622, generating a net loss of R\$ 2,145.

Also through its subsidiary GTL Equity Investments Corp., the Company contracted as interest rate swap, with the bank Calyon, with maturity date on August 15, 2012. The nominal value of this contract is US\$ 7.5 million (R\$ 13,335 as of September 30, 2009). This swap was contracted in order to minimize the interest rate variation risk (LIBOR) since the Company took on debts in dollars at floating rates. The fair value of these contracts, which represents the settlement amount if the contracts were settled as of September 30, 2009, is a net loss of R\$ 651.

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú entered into an interest rate swap contract whereby it receives a variable interest rate based on LIBOR and pays a fixed interest rate in US dollars. This contract had a nominal value of US\$ 67.86 million, equivalent to R\$ 120,661 as of September 30, 2009 and matures on April, 2014. This swap was contracted in order to minimize the risk of interest rate fluctuations (LIBOR) since the Company took on debt in dollars at floating rates for an amount greater than the swap. The fair value of this contract, which represents the settlement amount if the contract were settled as of September 30, 2009, is a net loss of R\$ 8,423. The counterpart to this transaction is Banco Bilbao Vizcaya (BBVA).

The subsidiary Gerdau Ameristeel Corp. entered into an interest rate swap contract qualified as a cash flow hedge in order to reduce its exposure to the variation in LIBOR for the Term Loan Facility. Since the Term Loan Facility was contracted at floating LIBOR rates, the Company chose to exchange it for fixed rates, thereby improving cash flow predictability, as well as eliminating the floating LIBOR risk. The contracts have a nominal value of US\$ 1 billion, which was the equivalent of R\$ 1,778,100 as of September 30, 2009. Fixed rates for these swaps are between 3.3005% and 3.7070% and they mature from March 2012 to September 2013. If added to the spread on LIBOR related to tranche B of the Term Loan Facility, the interest rate on these swaps would be between 4.5505% and 4.9570%. The fair value of these swaps, which represents the settlement amount if the contract were settled as of September 30, 2009, is a net loss of R\$ 73,596, which generates an effect net of taxes of R\$ 54,091 in a specific account of Equity. The counterparts to this transaction are ABN Amro Bank, HSBC, and JP Morgan.

The subsidiary Gerdau MacSteel contracted swaps with interest rates, exchanging its floating LIBOR for a fixed rate, in order to reduce its exposure to variations in the LIBOR rate for its Term Loan Facility. Since the Term Loan Facility was contracted at floating LIBOR rates, the Company opted to exchange it for fixed rates, thereby improving cash flow predictability, as well as eliminating the floating LIBOR risk. The contracts had a nominal value of US\$ 400 million (R\$ 711,240 as of September 30, 2009) and the LIBOR set for these swaps is between 3.5% and 3.73% and they mature from May, 2010 to May, 2011. The fair value of these swaps, which represents the settlement amount if the contract were settled as of September 30, 2009, is a net loss of R\$ 25,572, which generates an effect net of taxes of R\$ 15,610 in a specific account of Equity. The counterparts to this transaction are Santander, Calyon, and Bank of Tokyo.

Cross Currency Swap

The subsidiary Gerdau Açominas S.A. also entered into a coupon swap contract whereby it receives a variable interest rate based on Japanese LIBOR in Japanese yen and pays fixed rate on US dollars with a nominal value of US\$ 191.1 million (R\$ 339,794 as of September 30, 2009). This operation was entered into in order to protect the exchange rate from the "fee" paid in transaction costs as it is in Japanese yen. The value of this Fee is calculated over the notional of the transaction. The maturity date of the swap is March 31, 2015. The fair value of this contract, which represents the settlement amount if the contract were settled as of September 30, 2009, is a net gain of R\$ 2,715. The counterpart to this transaction is Citibank. This swap has a clause of "extinguisher", where the mark to market changes according to the credit of the company. Furthermore, the swap ceases to exist if the Company will have an event of default on the international market.

The subsidiary Gerdau Açominas S.A. also entered into a swap contract whereby it receives a variable interest rate based on Japanese LIBOR in Japanese yen and pays a fixed interest rate in US dollars with a nominal value of US\$ 216.9 million (R\$ 385,669 on September 30, 2009). This swap was entered into operation because the Company has a debt in Japanese yen currency, and by its policy, it is not allowed to contract debts in currencies in which the Company does not generate income, and because of that it was necessary to enter into this swap. This swap's maturity date is March 24, 2016. The fair

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

value of this contract, which represents the settlement amount if the contract were settled as of September 30, 2009, is a net gain of R\$ 63,690. The counterpart to this transaction is Citibank. This swap has a clause of “extinguisher”, where the mark to market changes according to the credit of the company. Furthermore, the swap ceases to exist if the Company has an event of default on the international market.

Guarantee Margins

The Company has derivatives financial instruments contracts, which states the possibility of constitution of deposits and/or guarantee margins when the mark to market value of these instruments exceeds the limits established in each contract. As of September 30, 2009, there were no margin calls for any of the above contracts.

The derivatives instruments can be summarized and categorized as follows:

Position	Recognized value						Fair value					
	Reference Value		Net income - nine months period ending on		Shareholder's equity		Amount receivable		Amount payable			
	September 30, 2009	December 31, 2008	September 30, 2009	September 30, 2008	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008		
Contracts for Asset Protection												
Forward												
Aços Villares S.A.	US\$116.6 million	US\$188.8 million	(23,776)	—	29,693	(44,390)	2,409	—	—	(109,466)		
Diaco S.A.	—	US\$15.4 million	3,180	9,220	—	—	—	2,720	—	—		
Siderúrgica del Perú S.A.A. - Siderperú	—	US\$6.29 million	(2,341)	—	—	—	—	110	—	—		
Gerdau Aza S.A.	US\$0.6 million	US\$3.1 million	(1,092)	—	—	—	—	7,205	(40)	(7,406)		
Salomon Sack	—	—	130	—	—	—	—	—	—	—		
			(23,899)	9,220	29,693	(44,390)	2,409	10,035	(40)	(116,872)		
Swap contracts												
Interest rate swap												
Aços Villares S.A.	receivable edge	Libor 6M+ 1.94%	US\$49.8 million	US\$59 million	(5,954)	(42,022)	—	—	—	(3,556)	(4,010)	
Gerdau Açominas S.A.	receivable edge	6.95% Libor 6M+	US\$157.2 million	US\$208.5 million	3,678	(3,028)	—	—	—	(13,771)	(22,906)	
	payable edge	(0.20% — 2.15%)										
Siderúrgica del Perú S.A.A. - Siderperú	receivable edge	5.64% — 7.05% Libor 6M+ 0.90%	US\$67.86 million	US\$75 million	(2,837)	(1,140)	—	—	—	(8,423)	(13,134)	
	payable edge	5.50%										
Gerdau Ameristeel Corp.	receivable edge	Libor 6M+ 1.37%	US\$1 billion	US\$1 billion	—	(1,390)	(54,091)	(87,467)	—	(73,596)	(147,243)	
Gerdau MacSteel Holdings Inc.	receivable edge	3.48% Libor 6M	US\$400 million	US\$400 million	—	—	(15,610)	(23,328)	—	(25,572)	(40,009)	
	payable edge	3.59%										
GTL Equity Investments Corp.	receivable edge	Libor 6M	US\$7.5 million	—	(846)	—	—	—	—	(651)	—	
GTL Equity Investments Corp.	receivable edge	3.48%	US\$300 million	US\$300 million	42,574	(10,673)	—	—	31,622	—	(33,767)	(39,528)
	payable edge	4.51% a.a.										
	payable edge	3.51% a.a.			36,615	(58,253)	(69,700)	(110,795)	31,622	(159,336)	(266,830)	
Cross currency swap												
Gerdau Açominas S.A.	receivable edge	variação cambial JPY	US\$191.1 million	US\$224.5 million	(1,437)	1,407	—	—	2,715	4,417	—	
Gerdau Açominas S.A.	payable edge	JPY 118.18	US\$216.9 million	US\$250.3 million	(1,317)	4,585	—	—	63,690	63,728	—	
	receivable edge	variação cambial JPY										
	payable edge	JPY 118.18			(2,754)	5,992	—	—	66,405	68,145	—	
					9,962	(43,041)	(40,007)	(155,185)	100,436	78,180	(159,376)	(383,702)

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

	September 30, 2009	December 31, 2008
Unrealized gains on derivatives		
Current assets	1,745	10,035
Non-current assets	98,691	68,145
	100,436	78,180
Unrealized losses on derivatives		
Current liabilities	(5,564)	(69,435)
Non-current liabilities	(153,812)	(314,267)
	(159,376)	(383,702)
Net effect	(58,940)	(305,522)

f) Put options on minority interest

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

current liability under “Put options on minority interest”. As a result of the recognition of this potential obligation, the Company has recognized Sidenor as a consolidated subsidiary since its acquisition. As of September 30, 2009, such potential obligation totaled R\$ 464,373 (R\$ 553,296 as of December 31, 2008).

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

Gerdau Ameristeel has the call option for 16% of the remaining interest in PCS, which can be exercised after 5 years from the purchase date. Additionally, the non-controlling shareholders also have the option to sell its remaining 16% interest in PCS to Gerdau Ameristeel, for the established price and also after 5 years from the date of transaction. The established price was set as the EBITDAs average for the 5 last years ended before the option exercise, multiplied by 5. If Gerdau Ameristeel does not exercise the call option, then the minority shareholders are entitled to exercise the option to sell their remaining stake to Gerdau Ameristeel. In case the call/put option is exercised, the other party is obligated to sell/purchase the remaining stake. As established by IAS 32 - Financial Instruments: Presentation, the Company performed the reclassification of the exercise value of the put option from the account "Non-controlling interests" to non-current liabilities under the account "Put options on minority interest". By the end of the term established in the put and call option and in case none of the involved parties exercise it, the reclassification will be reversed and the amount of the stake held by PCS minority shareholders, on the date of the Consolidated Financial Statements, will be recognized as a minority interests. As of September 30, 2009 the amount recorded as potential obligation is R\$ 66,278 (R\$ 145,025 as of December 31, 2008).

g) Net investment hedge

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

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

The Company performed prospective effectiveness test at the inception of the hedge and retrospective and prospective effectiveness tests as of September 30, 2009 in compliance with the standard IAS 39 and which demonstrated high effectiveness for the net investment hedge. As a result of this operation, the Company recognized an unrealized gain of R\$ 838,350 (loss of R\$ 634,050 as of December 31, 2008) in the Statement of Comprehensive Income as of September 30, 2009.

h) Measurement of fair value:

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

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

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

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs) because market activity is insignificant or does not exist.

As of September 30, 2009, the Company had some assets which the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value on a recurring basis and subject to disclosure requirements of IFRS 7 as of September 30, 2009, are as follows:

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

	Fair value measurement			Significant information nonavailable (Level 3)
	September 30, 2009	Quoted prices in active markets for identical assets (Level 1)	Quoted prices in non-active markets for similar assets (Level 2)	
Current assets				
Short-term investments				
Held for Trading	2,446,200	2,287,033	159,167	—
Available for sale	253,828	147,139	106,690	—
Derivatives	1,745	—	1,745	—
Non-current assets				
Long-term investments				
Available for sale	57,635	—	—	57,635
Derivatives	98,691	—	98,691	—
Current Liabilities				
Derivatives	5,564	—	5,564	—
Non-current liabilities				
Derivatives	153,812	—	153,812	—
Put options on minority interest				
Sidenor	464,373	—	—	464,373
PCS	66,278	—	—	66,278

The Company opted not to present the comparative period, as permitted by IFRS 7.

NOTE 13 – PROVISIONS FOR TAX, LABOR AND CLAIMS

The Company and its subsidiaries are parties to judicial and administrative proceedings involving tax, labor and civil matters. Based on the opinion of its legal counsel, Management believes that the Provisions recorded for these judicial and administrative proceedings is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and that the final decisions will not have significant effects on the financial position of the Company and its subsidiaries as of September 30, 2009.

The balances of the provisions are as follows:

	September 30, 2009	December 31, 2008
a) Tax provisions		
ICMS (state VAT)	(a.1) 50,616	33,300
CSLL (social contribution tax)	(a.2) 49,145	42,445
IRPJ (corporate income tax)	(a.3) 495	16,832
INSS (social security contribution)	42,076	43,842
ECE (emergency capacity charge)	33,996	33,996
RTE (extraordinary tariff adjustment)	21,895	21,802
II (import tax)/IPI (excise tax) Drawback	(a.4) 914	122,175
PIS (financing of social integration program)/COFINS (social security financing)	(a.5) 83,279	—
Other tax provisions	13,873	14,927
	<u>296,289</u>	<u>329,319</u>
b) Labor provisions	133,948	124,479
c) Civil provisions	10,290	13,278
	<u>440,527</u>	<u>467,076</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

a) Tax Provisions

a.1) ICMS (state VAT) proceedings, the majority of which relating to credit rights. Most of the proceedings are under judgment by the Finance Departments of the states and by the State Courts.

a.2) Social contribution tax. The amounts accrued refer, substantially, to discussions related to the constitutionality of the tax and the tax basis.

a.3) Issues related to corporate income tax - IRPJ are under discussion at the administrative level. The amount reduced due to the reversal of part of the provision.

a.4) The reduction is due to the reversal of the provision as a result of the subdivision of the debit in accordance to the Act 11.941/2009.

a.5) This lawsuit refers to the exclusion of ICMS (state VAT) of the tax basis of PIS (financing of social integration program) and COFINS (social security program).

II) Non accrued contingent liabilities

a) Tax contingencies

The Company renegotiated certain tax payments, including debts discussed in lawsuits and tax assessments related to PIS, COFINS, IPI and taxes related to social security, and joined the Tax Recovery Program (“Programa de Recuperação Fiscal” — REFIS), created by law 11.941, dated May 27, 2009, which allows the Company to pay these federal tax debts in installments.

NOTE 14 - RELATED-PARTY TRANSACTIONS

a) Intercompany loans

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Assets		
Controlling shareholders		
Metalúrgica Gerdau S.A.	4,573	—
Joint-controlled entities		
North America Joint ventures	—	2,724
Associate Companies		
Armacero Ind. Com. Ltda.	3,590	5,030
Others		
Fundação Gerdau	59,755	51,261
Others	7,289	77
	<u>75,207</u>	<u>59,092</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

Liabilities		
Associate Companies		
Armacero Ind. Com. Ltda.	(566)	(636)
Others		
Fundação Gerdau	(952)	
Others	(7,220)	(24)
	<u>(8,738)</u>	<u>(660)</u>
	<u>66,469</u>	<u>58,432</u>
	September 30, 2009	December 31, 2008
Loans and advances to executives officers	<u>323</u>	<u>304</u>
	September 30, 2009	
	September 30, 2008	
Net financial income (expenses)	<u>(25,938)</u>	<u>(1,149)</u>

b) Financial transactions

	Trading securities		Income (expenses)	
	September 30, 2009	December 31, 2008	September 30, 2009	September 30, 2008
Related party				
Banco Gerdau S.A. - CDB	—	55,173	—	3
Owners				
Indac - Ind. Adm. e Comércio S.A. (*)	—	—	(16,091)	(11,857)

(*) Guarantees granted of loans in the amount of R\$ 665,197.

c) Guarantees granted

The Company is guaranteed the financing contract of the subsidiary Gerdau Açominas S.A. in the amount of R\$ 1,773,931 as of September 30, 2009.

The Company is a guarantor for the subsidiary Empresa Siderúrgica del Perú S.A.A. — Siderperú for a secured loan of up to US\$ 150 million (R\$ 266,715 as of September 30, 2009). The Company is also the guarantor for a credit facility of US\$ 70 million (R\$ 124,467 as of September 30, 2009) for this subsidiary.

The Company is the guarantor of the jointly-controlled entity Dona Francisca S.A. for financing contracts in the amount of R\$ 53,527, corresponding to a joint liability of 51.82% of the amount.

The subsidiaries Gerdau Açominas S.A. is the guarantors of the vendor of the related company Banco Gerdau S.A., in the amounts of R\$ 29 as of September 30, 2009.

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A., Gerdau Comercial de Aços S.A., Gerdau Açominas Overseas, Ltd. and Gerdau Ameristeel Corporation are jointly liable for the subsidiary GNA Partners, in financing contracts in the amount of US\$ 2.6 billion (R\$ 4,623,060 as of September 30, 2009).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. are guarantors for GTL Trade Finance Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) until the amount of US\$ 1.5 billion (R\$ 2,667,150 as of September 30, 2009).

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. are guarantors for the Senior Liquidity Facility of the subsidiary GTL Trade Finance Inc. in the amount of US\$ 400 million (R\$ 711,240 as of September 30, 2009).

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

The Company provides guarantee for the obligations taken on by the company Diaco S.A. through a loan made with BBVA Colombia bank in the amount of COP\$ 61.5 billion (R\$ 62,234 as of September 30, 2009).

The Company provides guarantee for loans and for the opening of letter of credit for the acquisition of equipment by the company Estructurales Corsa, S.A.P.I. de C.V. in the amount of US\$ 90 million (R\$ 160,299 as of September 30, 2009).

The Company provides guarantee for its subsidiary Gerdau Aços Especiais S.A. in a purchase contract of electric energy in the total amount of US\$ 518 million (R\$ 921,060 as of September 30, 2009). Furthermore, the Company provided a supplementary guarantee related to this contract of up to US\$ 300 thousand (R\$ 533 as of September 30, 2009).

The Company provides guarantee for the loan contracted by the company Gerdau Açominas S.A with the Inter-American Development Bank in the total amount of US\$ 200 million (R\$ 355,620 as of September 30, 2009).

The Company provides guarantee for the obligations that are taken on by Gerdau MacSteel Inc. in hedge operations with the purpose of protecting this company from being exposed to the interest rate oscillations on the international market generated by the Term and Revolving Credit Agreement in the amount of US\$ 400 million (R\$ 711,240 on September 30, 2009).

The Company is guarantor for the financing contract of the subsidiary Gerdau Açominas S.A. with the Banco Bradesco in the amount of US\$ 150 million (R\$ 266,715 as of September 30, 2009).

NOTE 15 – EQUITY – PARENT COMPANY GERDAU S.A.

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

As of September 30, 2009 and December, 31 2008, 496,586,494 common shares and 934,793,732 preferred shares are subscribed and paid up, totaling a paid up capital of R\$ 14,184,805. The shares are distributed as follows:

Shareholders	Shareholders											
	September 30, 2009						December 31, 2008					
	Common	%	Pref.	%	Total	%	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.	378,227,645	76.3	271,353,662	29.0	649,581,307	45.4	378,263,757	76.2	271,353,662	29.0	649,617,419	45.4
Brazilian institutional investors	19,465,832	3.9	152,440,275	16.3	171,906,107	12.0	17,205,645	3.5	147,132,331	15.7	164,337,976	11.5
Foreign institutional investors	24,474,504	4.9	320,423,232	34.3	344,897,736	24.1	25,757,428	5.2	309,427,863	33.1	335,185,291	23.4
Other shareholders	72,720,975	14.6	181,295,340	19.4	254,016,315	17.7	73,662,126	14.8	197,605,475	21.2	271,267,601	18.9
Treasury stock	1,697,538	0.3	9,281,223	1.0	10,978,761	0.8	1,697,538.00	0.3	9,274,401	1.0	10,971,939	0.8
	496,586,494	100.0	934,793,732	100.0	1,431,380,226	100.0	496,586,494	100.0	934,793,732	100.0	1,431,380,226	100.0

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

b) Treasury stock - changes in treasury stocks are as follows:

	September, 30 2009				December, 31 2008			
	Common	R\$	Preferred shares	R\$	Common	R\$	Preferred shares	R\$
Opening balance	1,697,538	557	9,274,434	122,263	—	—	9,933,335	106,667
Repurchases	—	—	500,000	11,071	1,697,538	557	2,000,000	49,702
Exercise of stock option (note 17)	—	—	(493,211)	(6,503)	—	—	(2,658,901)	(34,106)
Closing balance	1,697,538	557	9,281,223	126,831	1,697,538	557	9,274,434	122,263

Of the total treasury preferred stocks, 78,598 related to the share buyback program authorized on November 17, 2003, 2,134,429 shares are related to the share buyback program authorized on May 30, 2005, 4,568,196 shares are related to the

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

share buyback program authorized on May 25, 2006, 2,000,000 shares are related to the share buyback program authorized on January 8, 2008 and 500,000 shares are related to the share buyback program authorized on August 27, 2009. The average acquisition cost of these shares is R\$ 13.67, with the lowest purchase price being R\$ 6.78 and the highest price R\$ 25.80. These shares will be held in treasury for subsequent cancellation or for the Company's "Long-term Incentive Program". During the third quarter of 2009, 220,610 shares were used in order to meet the stock options in the year, with losses of R\$ 517 recorded in the "Stock option plan" account.

NOTE 16 – EARNINGS PER SHARE (EPS)

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

Basic

	<u>Nine-Month period ended September 30, 2009</u>			<u>Nine-Month period ended September 30, 2008</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Allocated net income available to						
Common and Preferred shareholders	130,780	244,623	375,403	1,293,973	2,411,142	3,705,115
Basic denominator						
Weighted-average outstanding shares, after deducting the average treasury shares	494,888,956	925,681,610		482,558,488	899,181,726	
Earnings per share (in R\$) – Basic	0.26	0.26		2.68	2.68	
	<u>Three-Month period ended September 30, 2009</u>			<u>Three-Month period ended September 30, 2008</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Allocated net income available to						
Common and Preferred shareholders	192,642	360,389	553,031	336,971	630,166	967,137
Basic denominator						
Weighted-average outstanding shares, after deducting the average treasury shares	494,888,956	925,821,170		494,888,956	925,484,798	
Earnings per share (in R\$) – Basic	0.39	0.39		0.68	0.68	

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

Diluted

	Nine-Month period ended September 30, 2009	Nine-Month period ended September 30, 2008
Diluted numerator		
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	244,623	2,411,142
Add:		
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	259	3,450
	<u>244,882</u>	<u>2,414,592</u>
Net income allocated to common shareholders	130,780	1,293,973
Less:		
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	(259)	(3,450)
	<u>130,521</u>	<u>1,290,523</u>
Diluted denominator		
Weighted - average number of shares outstanding		
Common Shares	494,888,956	482,558,488
Preferred Shares		
Weighted-average number of preferred shares outstanding	925,681,610	899,181,726
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,825,238	3,693,948
Total	<u>928,506,848</u>	<u>902,875,675</u>
Earnings per share – Diluted (Common and Preferred Shares)	<u>0.26</u>	<u>2.67</u>
	Three-Month period ended September 30, 2009	Three-Month period ended September 30, 2008
Diluted numerator		
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	360,389	630,166
Add:		
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	362	440
	<u>360,751</u>	<u>630,606</u>
Net income allocated to common shareholders	192,642	336,971
Less:		
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	(362)	(440)
	<u>192,280</u>	<u>336,531</u>
Diluted denominator		
Weighted - average number of shares outstanding		
Common Shares	494,888,956	494,888,956
Preferred Shares		
Weighted-average number of preferred shares outstanding	925,821,170	925,484,798
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,675,709	1,859,410
Total	<u>928,496,879</u>	<u>927,344,208</u>
Earnings per share – Diluted (Common and Preferred Shares)	<u>0.39</u>	<u>0.68</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

NOTE 17 — LONG-TERM INCENTIVE PLANS

I) Gerdau S.A.

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

a) Summary of changes in the plan:

Year of grant	Exercise price - R\$	Vesting period	Average accrued market price	Quantity of shares				End balance on September 30, 2009
				Initial balance on December 31, 2008	Granted	Cancelled	Exercised	
2003	2.65	5 years	18.26	62,106	—	—	(62,106)	—
2004	6.78	5 years	18.26	1,349,859	—	—	(207,318)	1,142,541
2005	10.58	3 years	18.26	470,263	—	(1,432)	(30,620)	438,211
2005	10.58	5 years	18.26	1,155,565	—	—	(43,965)	1,111,600
2006	12.86	5 years	18.26	1,839,817	—	(7,097)	(146,396)	1,686,324
2007	17.50	5 years	18.26	1,455,728	—	(9,999)	(2,808)	1,442,921
2008	26.19	5 years	18.26	1,180,300	—	(9,556)	—	1,170,744
2009	14.91	5 years	18.26	—	2,285,238	(24,997)	—	2,260,241
				<u>7,513,638</u>	<u>2,285,238</u>	<u>(53,081)</u>	<u>(493,213)</u>	<u>9,252,582</u>

Year of grant	Exercise price - R\$	Vesting period	Average accrued market price	Quantity of shares				End balance on December 31, 2008
				Initial balance on December 31, 2007	Granted	Cancelled	Exercised	
2003	2.65	5 years	26.49	2,356,866	—	(47)	(2,294,713)	62,106
2004	6.78	5 years	26.49	1,414,594	—	(39,694)	(25,041)	1,349,859
2005	10.58	3 years	26.49	837,612	—	(11,596)	(355,753)	470,263
2005	10.58	5 years	26.49	1,215,248	—	(41,732)	(17,951)	1,155,565
2006	12.86	5 years	26.49	1,894,160	—	(33,723)	(20,620)	1,839,817
2007	17.50	5 years	26.49	1,531,098	—	(66,782)	(8,588)	1,455,728
2008	26.19	5 years	26.49	—	1,202,974	(19,621)	(3,053)	1,180,300
				<u>9,249,578</u>	<u>1,202,974</u>	<u>(213,195)</u>	<u>(2,725,719)</u>	<u>7,513,638</u>

As mentioned in Note 15, as of September 30, 2009 the Company has a total of 9,281,223 preferred shares in treasury. These shares may be used for serving this plan. The exercise of the options before the grace period end was due to retirement and/or death.

b) Status of the plan as of September 30, 2009:

	Grant						Average
	2004	2005	2006	2007	2008	2009	
Total options granted	1,142,541	1,549,811	1,686,324	1,442,921	1,170,744	2,260,241	
Exercise price- R\$ (adjusted for stock split)	6.78	10.58	12.86	17.50	26.19	14.91	14.64
Fair value of options on the granting date - R\$ per option (*)	1.92	1.11	4.33	7.64	10.55	6.98	5.44
Average exercise period on the grant date (years)	5.00	5.00	5.00	4.90	4.89	4.87	4.94

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

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

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

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

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

II) Gerdau Ameristeel Corporation — (“Gerdau Ameristeel”)

Gerdau Ameristeel Corporation and its subsidiaries have long-term incentive plans that are designed to award employees with bonuses based on attaining goals related to the return on capital invested. The bonuses will be granted at the end of the year in cash, stock appreciation rights (SAR’s), and/or options. The payment of the cash bonus will be made in the form of shares (phantom stock). The number of shares will be determined by dividing the value of the bonus in cash by the market value of the common share on the date of grant, based on the average negotiation price of common shares on the New York Stock Exchange. Phantom Stock and SAR’s may be exercised at the rate of 25% during each one of the first four anniversaries of the date of grant. Phantom Stock will be paid in cash, when exercised. The number of shares granted to participants is determined by dividing the portion of the bonus not paid in cash by the market value of a common share as of the granting date. The option value is determined by the Human Resources Committee of Senior Management based on the Black-Scholes model or other method. The options may be exercised at the rate of 25% per year during four years from the date of grant and prescribe after 10 years. The maximum number of options that will be granted under this plan is 6,000,000.

An award of approximately US\$ 10.6 million (R\$ 18,847 as of September 30, 2009) was earned by participants in 2008 and was granted 40% in SARs, 30% in options and 30% in phantom stock. On March 5, 2009, the Company issued 2,002,116 options, as part of this award. An award of approximately US\$ 8.3 million (R\$ 14,758 as of September 30, 2009) was earned by participants in 2007. On February 28, 2008, the Company issued 379,564 options, under this plan. These awards are being accrued over the vesting period.

The grant date fair value of stock options granted in September, 2009 and September, 2008 was US\$ 1.59 million (R\$ 2,827 as of September 30, 2009) and US\$ 6.02 (R\$ 10,704 as of September 30, 2009), respectively.

A summary of Gerdau Ameristeel stock option plans is as follows:

	September 30, 2009			December 31, 2008		
	Number of shares	Average market price in the period		Number of shares	Average market price in the period	
		US\$	R\$		US\$	R\$
Available at the beginning of the year	1,307,036	9.13	16.23	1,287,669	5.92	13.84
Options granted	2,002,116	3.48	6.19	379,564	15.86	37.06
Options exercised	(106,153)	1.98	3.52	(324,847)	3.67	8.58
Options cancelled	(372,064)	6.18	10.99	(23,350)	11.57	27.04
Options expired	—	—	—	(12,000)	21.89	51.16
Available at the end of the year	2,830,935	5.79	10.30	1,307,036	9.13	21.34
Shares exercised	667,757			583,464		

The table below summarizes information on purchase options of Gerdau Ameristeel shares available as of September 30, 2009:

Exercise price range	Quantity Available	Average period of grace (in year)	Average price of exercise		Number exercisable at September 30, 2009
			US\$	R\$	
US\$ 1,38 to US\$ 3,48 (R\$ 2,45 to R\$ 6,19)	2,075,212	8.2	3.22	5.73	336,866
US\$ 9,50 to US\$ 10,90 (R\$ 16,89 to R\$ 19,38)	428,140	7.2	10.53	18.72	242,495
US\$ 15,86 (R\$ 28,20)	327,583	8.4	15.86	28.20	88,396
	2,830,935				667,757

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

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

	2009	2008
Dividend yield	3.10%	3.08%
Volatility in the price of action share	62.95%	49.10%
Free rate of return risk	1.99%	3.01%
Expected period to maturity	6.25 years	6.25 years

During the nine months period ended September 30, 2009 and 2008, costs related to long-term incentive plans for the options granted were US\$ 0.9 million (R\$ 1,600 as of September 30, 2009) and US\$ 0.6 million (R\$ 1,067 as of September 30, 2009), respectively. As of September 30, 2009 long-term incentive plan costs not yet recorded related to grants still in the grace period amounted to approximately US\$ 2,6 million (R\$ 4,623 as of September 30, 2009), and the average period for recognizing these costs was 2.5 years.

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

Gerdau Macsteel Inc and its subsidiaries have long-term incentive plans that are designed to reward the Company’s senior management with bonuses based on the achievement of return on capital invested targets. Bonuses which have been earned are awarded after the end of the year in the form of cash or stock appreciation rights (“SARs”). The portion of any bonus which is payable in cash is to be paid in the form of phantom stock. The number of shares of phantom stock awarded to a participant is determined by dividing the cash bonus amount by the market value of the Gerdau S.A. Common Share at the date the award of phantom stock is made, based in the average price of Common Shares in the New York Stock Exchange. Phantom stock and SAR’s vest 25% on each of the first four anniversaries of the date of the award. Phantom Stock is paid in cash when exercised. An award of approximately US\$ 0.7 million (R\$1.245 as of September 30, 2009) was earned by participants in 2009 and was granted 80% in SARs and 20% in phantom stock.

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

Dividend yield	2.19%
Volatility in the price of action share	71.61%
Free rate of return risk	2.404%
Expected period to maturity	5.68 years

As of September 30, 2009 long-term incentive plan costs not yet recorded related to grants still in the grace period amounted to approximately US\$ 2.0 million (R\$ 3,556 as of September 30, 2009), and the average period for recognizing these costs was 5.68 years.

NOTE 18 — SEGMENT REPORTING

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

The Company adopted the IFRS 8 (Operating Segments) as of January 01, 2009, replacing the IAS 14 (Reporting Financial Information by Segment) that had been adopted up to the year 2008.

From the second quarter of 2009 on, the Board approved the proposal of the Gerdau Executive Committee related to the new governance of the Company, which established a new business segmentation, which became to be the following: Operation Brazil (includes operations in Brazil, except specialty steels), North America Operation (includes all operations in North America, except those of Mexico and specialty steels (Macsteel)), Latin America Operation (includes all operations in Latin America, except Brazil) and Specialty Steel Operation (including specialty steel operations in Brazil, Europe and the United States).

For comparison, information as of September 30, 2008 was modified with respect to the information originally presented in order to consider the same criteria established by IFRS 8 and the new business segmentation established by the Gerdau Executive Committee.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais — R\$, unless otherwise stated)
(Unaudited)

	Business Segments											
	Brazil Operation		North America Operation		Latin America Operation		Specialty Steels Operation		Eliminations and Adjustments		Consolidated	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net sales	7,734,174	12,138,504	6,640,535	11,823,301	2,486,951	3,510,112	3,493,961	6,010,806	(178,417)	(994,532)	20,177,204	32,488,191
Cost of sales	(5,471,714)	(7,570,674)	(6,125,725)	(9,413,689)	(2,467,545)	(2,594,709)	(3,324,286)	(4,656,503)	310,718	950,257	(17,078,552)	(23,285,318)
Gross profit	2,262,460	4,567,830	514,810	2,409,612	19,406	915,403	169,675	1,354,303	132,301	(44,275)	3,098,652	9,202,873
Selling expenses	(270,261)	(338,323)	(38,076)	(27,877)	(65,257)	(73,626)	(76,407)	(55,985)	(17)	(100)	(450,018)	(495,911)
General and administrative expenses	(563,612)	(760,768)	(355,542)	(340,384)	(140,746)	(187,135)	(216,303)	(321,491)	(44,965)	(108,123)	(1,321,168)	(1,717,901)
Impairment of assets	—	—	(214,372)	—	(136,491)	—	(872,034)	—	—	—	(1,222,897)	—
Other operating income (expenses)	(2,722)	30,775	(5,808)	1,938	(748)	3,392	37,465	32,994	10,527	11,179	38,714	80,278
Equity in earnings of unconsolidated companies	—	—	(28,010)	130,410	(69,609)	113,534	(25,802)	(12,235)	8,023	5,858	(115,398)	237,567
Operational (Loss) income before financial income (expenses) and taxes	1,425,865	3,499,514	(126,998)	2,173,699	(393,445)	771,568	(983,406)	997,586	105,869	(135,461)	27,885	7,306,906
Financial income	82,103	125,905	60,737	42,761	10,608	16,660	62,641	89,606	95,496	45,546	311,585	320,478
Financial expenses	(297,220)	(313,704)	(264,500)	(303,681)	(94,280)	(120,514)	(188,379)	(176,330)	(191,179)	(192,214)	(1,035,558)	(1,106,443)
Exchange variations, net	1,171,570	(461,653)	(63,573)	13,415	58,863	17,024	38,582	(16,136)	(176,079)	(6,576)	1,029,363	(453,926)
Gain and losses on derivatives, net	925	2,964	—	(1,390)	(2,960)	8,081	(29,730)	(42,022)	41,727	(10,674)	9,962	(43,041)
Income before taxes	2,383,243	2,853,026	(394,334)	1,924,804	(421,214)	692,819	(1,100,292)	852,704	(124,166)	(299,379)	343,237	6,023,974
Income and social contribution taxes	(588,324)	(709,939)	200,659	(651,672)	(15,779)	(95,496)	372,041	(238,120)	49,215	305,062	17,812	(1,390,165)
Net income	1,794,919	2,143,087	(193,675)	1,273,132	(436,993)	597,323	(728,251)	614,584	(74,951)	5,683	361,049	4,633,809
Supplemental information:												
Net sales between segments	1,335,502	3,287,435	48,106	90,739	27,104	22,277	82,808	119,324	174,420	747,793	1,667,940	4,267,568
Depreciation/amortization	540,639	592,387	431,817	373,717	63,552	76,863	301,044	233,086	(18,451)	(10,596)	1,318,601	1,265,457
Investments in associates and jointly-controlled entities	—	—	268,638	388,020	816,334	1,048,523	18,438	100,438	111,741	98,697	1,215,151	1,635,678
Total assets	14,214,465	13,645,173	14,610,412	17,698,669	4,535,282	6,226,518	8,323,325	11,243,252	4,248,520	5,995,516	45,932,004	54,809,128
Total liabilities	6,015,601	7,160,563	7,478,504	9,504,334	1,513,290	2,487,019	4,374,571	6,114,800	4,504,418	5,300,067	23,886,384	30,566,783

The main products by business segment are:

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

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

Latin America Operation: rebar, bars and drawn products.

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

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

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

	Geographic Area									
	Brazil		Latin America (1)		North America (2)		Europe		Consolidated	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net sales	9,054,259	13,709,066	2,486,951	3,510,112	7,470,476	12,914,571	1,165,518	2,354,442	20,177,204	32,488,191
Total assets	21,230,442	23,000,174	4,535,282	6,226,518	17,560,210	21,745,797	2,606,070	3,836,639	45,932,004	54,809,128

(1) Does not include operations of Brazil

(2) Does not include operations of Mexico

The disclosure of the revenue by products is not presented because such information is not retained by the Company on a consolidated basis, who has this information only in volumes.

NOTE 19 — EXPENSES BY NATURE

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

	Three-Month period ended		Nine-Month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Depreciation and amortization	(401,738)	(434,019)	(1,318,601)	(1,265,457)
Labor expenses	(837,069)	(1,086,927)	(2,827,210)	(3,031,996)
Raw material and consumption material	(3,727,795)	(6,471,685)	(12,032,712)	(17,554,157)
Freight	(329,391)	(502,505)	(875,078)	(1,433,708)
Impairment of assets	(142,834)	—	(1,222,897)	—
Other expenses	(543,857)	(636,406)	(1,757,423)	(2,133,534)
	<u>(5,982,684)</u>	<u>(9,131,542)</u>	<u>(20,033,921)</u>	<u>(25,418,852)</u>

Classified as:

Cost of sales	(5,301,685)	(8,353,462)	(17,078,552)	(23,285,318)
Selling expenses	(144,497)	(161,752)	(450,018)	(495,911)
General and administrative expenses	(375,766)	(653,552)	(1,321,168)	(1,717,901)
Impairment of assets	(142,834)	—	(1,222,897)	—
Other operating income	36,877	37,497	148,201	121,165
Other operating expenses	(54,779)	(273)	(109,487)	(40,887)
	<u>(5,982,684)</u>	<u>(9,131,542)</u>	<u>(20,033,921)</u>	<u>(25,418,852)</u>

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

NOTE 20 — FINANCIAL INCOME

The amounts recorded as “Financial Income” include: income from short-term investments in the amount of R\$ 197,543 (R\$ 198,793 as of September 30, 2008) and interest income and other financial incomes in the amount of R\$ 114,042 (R\$ 121,505 as of September 30, 2008).

The amounts recorded as “Financial Expenses” include: Interest on the debt in the amount of R\$ 794,614 (R\$ 725,470 as of September 30, 2008) and monetary variation and other financial expenses in the amount of R\$ 240,944 (R\$ 380,973 as of September 30, 2008).

The amounts recorded as “Exchange Variation, net” include principally the exchange variation of export receivables, import payables, and debts in foreign currency. Net exchange variation totaled an income of R\$ 1,029,363 as of September 30, 2009 (expense of R\$ 453,926 as of September 30, 2008).

The gains and losses on derivatives, net include income and expenses arising from fluctuation in the value of derivatives. As of September 30, 2009, the gains and losses with derivatives, net total an income of R\$ 9,962 (expense of R\$ 43,041 as of September 30, 2009).

NOTE 21 — IMPAIRMENT OF ASSETS

The impairment test of goodwill and other long-lived assets is evaluated based on the analysis and identification of facts or circumstances that may involve the need to perform the impairment test. The Company performed impairment tests of goodwill and other long-lived assets, based on projections of discounted cash flows which take into account assumptions such as: cost of capital, growth rate and adjustments applied to flows in perpetuity, methodology for working capital determination, investment plans, and long-term economic-financial forecasts.

The Company, based on the factors below, concluded in performing the impairment test of goodwill and other long-lived assets during the second quarter of 2009:

- Global steel market;
- Level of demand for products of the Company;
- World economy scenery recovery.

21.1 Goodwill impairment test

The goodwill impairment test allocated to the business segments is performed annually in December or whenever changes in events or circumstances indicate the need of doing it.

The Company has four business segments, which represent the cash generating unit monitored by the Chief Operating Decision Maker of the Company, and the composition of goodwill by operating segments is presented in Note 8.

In the second quarter of 2009, the Company performed an impairment test of the goodwill allocated to its business segments Specialty Steel and North America, because of the negative impact brought by the economic crisis to those segments.

The assumptions used to determine the fair value by the discounted cash flow method include: cash flow forecasts based in assumptions of the Company to future cash flows, discount rates between 12.5% to 13.25% and growing rates between 2.0% and 3.0% to the determination of the perpetuity. Additionally, the perpetuity was calculated considering the stabilization of operational margins, working capital levels and investments.

The tests carried out identified goodwill impairment in the amount of R\$ 201,657 to the Specialty Steel segment in the second quarter of 2009. The tests carried out did not identify goodwill impairment in the second quarter to the North America Segment.

GERDAU S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
as of September 30, 2009 and 2008
(in thousands of Brazilian reais – R\$, unless otherwise stated)
(Unaudited)

In the third quarter of 2009 there were not changes in the assumptions used in the cash flows calculation that resulted in the need of performing new impairment tests and as a result of that, no goodwill impairment was recognized in the third quarter of 2009.

21.2 Other long lived assets Impairment test

The tests identified an impairment of property, plant and equipment in the Specialty Steel segment in the amount of R\$ 218,391, Latin America segment in the amount of R\$ 136,491 and North America segment in the amount of R\$ 71,538, totalizing R\$ 426,420 in the second quarter and R\$ 93,596 in the North America segment in the third quarter. Additionally, the Company recognized other costs related to the closure of some mills, such as employee severance costs, pension plan, etc, in the amount of R\$ 101,469 in the second quarter and R\$ 49,238 in the third quarter.

The Company also performed impairment tests to other intangible assets due do the reduction in the value of customers relationship due to the weak demand originated by the economic difficulties of the automotive industry and as a result of that recognized an impairment in the Specialty Steel segment related to other intangible assets in the amount of R\$ 304,425. No impairment related to other intangible assets was recognized in the third quarter of 2009.

In the second quarter of 2009, the Company recognized impairment related to investments in associates and jointly-controlled entities regarding the jointly-controlled entity Kalyani Gerdau Steel Ltd. in the amount of R\$ 46,092 (R\$ 31,458 related to goodwill and R\$ 14,634 related to property, plant and equipment)

In the third quarter of 2009, the business segments Specialty Steel and North America had improvements in its main indicators, however, despite the circumstances that indicate scenery improvements, market future uncertainties still remain and because of that, the Company believes that the sceneries used in the impairment tests of the second quarter are still the best assumptions of the Company to the results and future cash flow generation for each of its business segments. The Company will monitor the fourth quarter results, which will indicate the reasonableness of future projections used.

NOTE 22 - SUBSEQUENT EVENTS

I) On October 20, 2009, the Company announced that it is resuming the project for installing the heavy plate rolling mill in its Gerdau Açominas steel plant in Ouro Branco, Minas Gerais, with investments estimated in R\$ 1.75 billion. These amount is part of the global investment plan of R\$ 6.3 billion announced by the company for the coming years. The installation of the heavy plate rolling mill, which had been postponed due to the impact of the global crisis on steel consumption, will mark the beginning of flat steel production by the company in Brazil.

II) On November 3, 2009, the Company proposed dividends anticipation, under interest on capital format, to be paid on the income of the nine months period ended September 30, 2009, which will be calculated and credited under the positions owned on November 16, 2009 (R\$ 0.075 per common and preferred share), with payment on November 26, 2009. These amounts will be a payment in advance of the minimum dividends established by the Company's bylaws, and will be submitted for approval to the Board of Directors on November 5, 2009.

ISSUER

Gerdau Holdings Inc.
2711 Centerville Road, Suite 400
Wilmington, Delaware 19808
U.S.A.

GUARANTORS

Gerdau S.A.
Av. Farrapos 1811
90220-005 - Porto Alegre, RS
Brazil

Gerdau Açominas S.A.
Av. Farrapos 1811
90220-005 - Porto Alegre, RS
Brazil

Gerdau Aços Longos S.A.
Av. Farrapos 1811
90220-005 - Porto Alegre, RS
Brazil

Gerdau Aços Especiais S.A.
Av. Farrapos 1811
90220-005 - Porto Alegre, RS
Brazil

Gerdau Comercial de Aços S.A.
Av. Farrapos 1811
90220-005 - Porto Alegre, RS
Brazil

TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

The Bank of New York Mellon
101 Barclay Street, Floor 4E
New York, NY 10286
U.S.A.

LUXEMBOURG LISTING AGENT, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Aerogolf Center-1A, Hoehenhof
L-1736 Senningerberg
Luxembourg

LEGAL ADVISERS

To the Issuer and Guarantors as to U.S. law:

Greenberg Traurig, LLP
200 Park Avenue- Metlife Building
New York, NY 10166
U.S.A.

To the Issuer and Guarantors as to Brazilian law:

Machado, Meyer, Sendacz e Opice Advogados
Av. Brigadeiro Faria Lima, 3144 – 11th Floor
01451-000 - São Paulo, SP
Brazil

To the initial purchasers as to U.S. law:

Shearman & Sterling LLP
599 Lexington Avenue
New York, NY 10022
U.S.A.

To the initial purchasers as to Brazilian law:

Souza, Cescon, Barriau & Flesch Advogados
Rua Funchal, 263
04551 060 São Paulo, SP
Brazil

INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu Auditores Independentes
Av. Carlos Gomes, 403-12th floor
90480-003 Porto Alegre, RS
Brazil

PricewaterhouseCoopers Independent Accountants
Rua Mostardeiro, 800 – 9th floor
90430-000 Porto Alegre, RS
Brazil

