

GERDAU S.A.  
Form 20-F  
April 23, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

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

**OR**

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

**OR**

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

**OR**

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

Commission file number 1-14878

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

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

**Federative Republic of Brazil**  
(Jurisdiction of incorporation or organization)

Edgar Filing: GERDAU S.A. - Form 20-F

Av. Farrapos 1811

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

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

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

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

None

---

Table of Contents

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

**None**

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

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

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Edgar Filing: GERDAU S.A. - Form 20-F

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

---

Table of Contents**TABLE OF CONTENTS**

	<b>Page</b>
<u>INTRODUCTION</u>	4
<u>PART I</u>	6
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>
<u>ITEM 4.</u>	<u>COMPANY INFORMATION</u>
<u>ITEM 4A.</u>	<u>UNRESOLVED SEC STAFF COMMENTS</u>
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u>
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK</u>
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>
<u>PART II</u>	118
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>
<u>ITEM 16.</u>	<u>[RESERVED]</u>
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>
<u>ITEM 16F.</u>	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>
<u>PART III</u>	126
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>
<u>ITEM 19.</u>	<u>FINANCIAL STATEMENTS AND EXHIBITS</u>

---

Table of Contents

**INTRODUCTION**

Unless otherwise indicated, all references herein to:

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

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

Table of Contents

**CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

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

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

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

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;
- electric energy shortages and government responses to them;



## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

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

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

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

## IFRS Summary Financial and Operating Data

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

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

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

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

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

Exchange rates between the United States Dollar and Brazilian Reais

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

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

**Dividends**

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

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

Table of Contents

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

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

---

(1) Payment of interest on equity.

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

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

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

**B. CAPITALIZATION AND INDEBTEDNESS**

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

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

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

Table of Contents

**D. RISK FACTORS**

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

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

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

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

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

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

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



## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

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

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

***Unexpected equipment failures may lead to production curtailments or shutdowns.***

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

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

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

- elect a majority of our directors and nominate executive officers, establish our administrative policy and exercise full control of our management;
  
- sell or otherwise transfer their shares in our Company; and
  
- approve any action requiring the approval of shareholders representing a majority of our outstanding capital stock, including corporate reorganization, acquisition and sale of assets, and payment of any future dividends.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

- Decrease in international steel prices;

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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



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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

certification guarantees that the Company follows sustainable environmental factors in the production of its steel products. Moreover, Gerdau has invested funds to increase solid biofuel consumption as a source of energy in the production of pig-iron. At the same time, the Company has increased its efforts to control and manage CO<sub>2</sub> inventories, which include the use of a number of different technologies.

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

**ITEM 4. COMPANY INFORMATION**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

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

**History**

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

Table of Contents

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

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

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

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

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

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

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

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



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

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

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

Table of Contents

assumption of certain liabilities of the acquired company.

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

Table of Contents

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

**B. BUSINESS OVERVIEW****Steel Industry**

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

**Crude Steel Production by Process in 2010\***

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

---

Source: worldsteel/monthly statistics

\*Last information available

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

**Crude Steel Production (in million tonnes)**

Source: worldsteel/monthly statistics

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

**Crude Steel Production by Country in 2011 (million tonnes)**

Source: worldsteel/monthly statistics

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

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

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

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

Table of Contents

***The Brazilian Steel Industry***

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

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

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

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

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



---

(\*) Preliminary figures

Source: IABr - Instituto Aço Brasil

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

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

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

Table of Contents

***Production and Apparent Demand for Steel Products (million tonnes)***

Source: worldsteel/Short Range Outlook

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

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

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

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

*North American Steel Industry*

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

Table of Contents

*Crude Steel Production by North American Countries (million tonnes)*

Source: worldsteel/monthly statistics

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

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

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

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

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

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

Table of Contents

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

**Company Profile**

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

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

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

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

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

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

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

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

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

Table of Contents

**Operations**

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

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

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

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

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

**Shipments\***



**Gerdau S.A. Consolidated****Shipments by Business****Operations (\*\*)**

<b>(1,000 tonnes)</b>	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>TOTAL</b>	<b>19,164</b>	<b>17,363</b>	<b>13,987</b>
Brazil	7,065	6,646	5,175
North America	6,528	5,742	4,935
Latin America	2,641	2,211	2,015
Special Steel	2,930	2,764	1,862

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

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

**Net Sales****Gerdau S.A. Consolidated Net****Sales by Business Operations**

(\*)

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

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

Table of Contents

***Brazil Business Operation***

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

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

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

***North America Business Operation***

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

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

***Latin America Business Operation***

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

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

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

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

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

***Special Steel Business Operation***

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

Table of Contents

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

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

**Exports**

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

### Products

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

#### *Crude Steel (Billets, Blooms and Slabs)*

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

Table of Contents

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

***Common Long Rolled Products***

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

***Drawn Products***

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

***Special Steel Products***

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

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

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

***Flat Products***



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

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

### **Production Process**

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

#### ***Non-Integrated Process (Mini-Mills)***

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

Table of Contents

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

*Integrated Process*

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

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

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

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

## Logistics

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

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

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

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

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

Table of Contents

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

**Competition**

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

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

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

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

***Competitive Position Brazil***

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

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

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

---

Source: IABr - Instituto Aço Brasil

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

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

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

Table of Contents

*Competitive Position Outside Brazil*

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

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

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

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

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

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

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

**Business Cyclicity and Seasonality**

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

Table of Contents

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

**Information on the Extent of the Company's Dependence**

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

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

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

**Production Inputs**

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

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

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



## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

### ***Ferrous Scrap***

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

Table of Contents

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

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

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

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

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

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

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

***Pig Iron and Sponge Iron***

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

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

exported.

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

### ***Iron Ore***

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

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

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

### ***Other Inputs***

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

Table of Contents

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

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

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

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

***Energy Requirements***

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

**Technology and Quality Management**

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

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

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

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

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

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

Table of Contents

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

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

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

**Sales Terms and Credit Policy**

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

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

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

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

**Insurance**



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

### **Trade Investigations and Government Protectionism**

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

### **Mine Operating License**

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

Table of Contents

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

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

**Material Effects of Government Regulation**

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

**C. ORGANIZATIONAL STRUCTURE**

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

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

Edgar Filing: GERDAU S.A. - Form 20-F

Table of Contents

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

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

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

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

(10) Subsidiary: Siderco S.A.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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



Edgar Filing: GERDAU S.A. - Form 20-F

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

Table of Contents

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

Edgar Filing: GERDAU S.A. - Form 20-F

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



Table of Contents

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

***Mining Assets***

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

**Investment Programs**

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

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

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

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

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

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



Table of Contents

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

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

(2) Investment with approval in stages.

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

**Environmental Issues**

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

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

**Environmental Regulation**

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

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



Table of Contents

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

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

- fines;
  
- partial or total suspension of operations;
  
- obligations to provide compensation for recovery works and environmental projects;
  
- forfeiture of or restrictions on tax incentives and benefits;
  
- closing of establishments or enterprises; and
  
- forfeiture or suspension of participation in credit lines with official credit agencies.

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

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

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

### ***Brazilian Environmental Legislation***

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

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

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

Table of Contents

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

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

***North American Environmental Legislation***

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

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

***Environmental Permits***

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

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

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

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

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

Table of Contents

*Areas of permanent forest preservation and legal reserves*

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

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

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

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

**ITEM 4A. UNRESOLVED SEC STAFF COMMENTS**

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

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. OPERATING RESULTS**

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

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

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

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

#### **Brazilian Economic Conditions**

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

Table of Contents

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

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

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

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

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

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

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

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

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

---

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

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



Table of Contents**U.S. Economic Conditions**

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

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

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

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

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

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

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

Sources: International Monetary Fund and Federal Reserve Statistical Release

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

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

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

### **Impact of Inflation and Fluctuations in Exchange Rates**

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

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

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

Table of Contents

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

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

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

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

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

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

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

Source: Metal Bulletin and Bloomberg

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

Table of Contents

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

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

***Production Costs Breakdown in 2011***

**Significant events affecting financial performance during 2011**

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

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

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

## **Operating Results**

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

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

Table of Contents

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

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

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

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

---

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



Table of Contents

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

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

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

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

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

**Cost of Sales and Gross Profit**

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

Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

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

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

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

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

*Selling, General and Administrative Expenses*

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

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

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

*Reversal of Impairment (Impairment) of Assets and Restructuring Costs*

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

Table of Contents

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

***Equity in Earnings of Unconsolidated Companies***

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

***Income before Financial Income (Expenses) and Taxes***

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

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

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

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

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

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

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

***Income and Social Contribution Taxes***

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

***Net Income***

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

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

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

Table of Contents

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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



Table of Contents

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

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

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

*Cost of Sales and Gross Profit*

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

---

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

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

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

Table of Contents

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

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

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

*Selling, General and Administrative Expenses*

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

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

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

*Reversal of Impairment (Impairment) of Assets and Restructuring Costs*

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

Edgar Filing: GERDAU S.A. - Form 20-F

<b>Restructuring Costs</b>			<b>(49)</b>		<b>(102)</b>	<b>(151)</b>
<b>Total</b>	<b>336</b>	<b>336</b>	<b>(215)</b>	<b>(136)</b>	<b>(872)</b>	<b>(1,223)</b>

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

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

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

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

Table of Contents***Equity in Earnings of Unconsolidated Companies***

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

***Income before Financial Income (Expenses) and Taxes***

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

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

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

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

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

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

***Income and Social Contribution Taxes***

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

***Net Income***

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

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

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

Table of Contents

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

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

**Critical Accounting Policies**

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

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

**a) Deferred Income and Social Contribution Tax**

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

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

#### **b) Pension and Post-Employment Benefits**

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

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

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



Table of Contents

- ii) Pension plan assets are stated at fair value.
- iii) Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based in actuarial evaluation done by independent actuaries.

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

**c) Environmental Liabilities**

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

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

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

**d) Derivative Financial Instruments**

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

**e) Useful Lives of Long-Lived Assets**

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

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

**f) Fair Value of Unquoted Derivative Financial Instruments**

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

Table of Contents

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

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

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

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

**h) Business Combination**

**Step-acquisitions in which control is obtained**

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

**Acquisitions in which control is obtained initially**

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

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

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

#### **Increases/decreases in non-controlling interests**

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

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

Table of Contents

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

**Loss of control of a subsidiary**

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

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

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

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

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

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

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

**B. LIQUIDITY AND CAPITAL RESOURCES**

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

**Cash Flow**

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



Table of Contents

	For the year ended December 31,				
	2011	2010	2009	Variation 2011 / 2010	Variation 2010 / 2009
<b>Cash flows from operating activities</b>					
Net income for the year	2,097,576	2,457,379	1,004,508	-14.6%	144.6%
Adjustments to reconcile net income for the year to net cash provided by operating activities					
Depreciation and amortization	1,771,881	1,893,074	1,745,319	-6.4%	8.5%
(Reversal) Impairment of assets		(336,346)	1,072,190		
Restructuring costs			150,707		
Equity in earnings of unconsolidated companies	(62,662)	(39,454)	108,957	58.8%	
Exchange variation, net	(51,757)	(104,364)	(1,060,883)	-50.4%	-90.2%
Losses (Gains) on financial instruments, net	65,438	(12,392)	26,178		
Post-employment benefits	15,882	82,611	33,995	-80.8%	143.0%
Stock based remuneration	13,974	18,629	22,380	-25.0%	-16.8%
Income tax	253,096	501,859	26,952	-49.6%	1762.0%
Losses (Gains) on disposal of property, plant and equipment and	21,006	(20,532)	116,989		
Gains on available for sale securities	(28,073)				
Allowance for doubtful accounts	42,980	16,018	57,971	168.3%	-72.4%
Provision for tax, labor and civil claims	261,024	199,092	(15,886)	31.1%	
Interest income on investments	(265,766)	(174,622)	(346,531)	52.2%	-49.6%
Interest expense on loans	828,106	919,594	992,693	-9.9%	-7.4%
Interest on loans with related parties	(4,388)				
Provision for net realisable value adjustment in inventory	56,999	50,526	36,459	12.8%	38.6%
Reversal of net realisable value adjustment in inventory	(122,877)	(50,634)	(196,981)	142.7%	-74.3%
	4,892,439	5,400,438	3,775,017	-9.4%	43.1%
<b>Changes in assets and liabilities:</b>					
(Increase) Decrease in trade accounts receivable	(203,041)	(660,891)	1,449,678	-69.3%	
(Increase) Decrease in inventories	(681,604)	(1,160,419)	3,766,059	-41.3%	
Increase (Decrease) in trade accounts payable	1,121,433	110,358	(1,731,878)	916.2%	
(Increase) Decrease in other receivables	(415,192)	176,403	(148,962)		
(Decrease) Increase in other payables	(127,854)	(168,962)	203,038	-24.3%	
Distributions from jointly-controlled entities	61,150	68,647	41,887	-10.9%	63.9%
Purchases of trading securities	(6,113,717)	(712,204)	(1,283,438)	758.4%	-44.5%
Proceeds from maturities and sales of trading securities	4,384,832	2,423,597	1,642,383	80.9%	47.6%
<b>Cash provided by operating activities</b>	2,918,446	5,476,967	7,713,784	-46.7%	-29.0%
Interest paid on loans and financing	(726,360)	(796,799)	(1,026,893)	-8.8%	-22.4%
Income and social contribution taxes paid	(482,068)	(541,048)	(336,299)	-10.9%	60.9%
<b>Net cash provided by operating activities</b>	1,710,018	4,139,120	6,350,592	-58.7%	-34.8%
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment	(1,961,379)	(1,288,769)	(1,377,776)	52.2%	-6.5%
Proceeds from sales of property, plant and equipment, investments and other	11,473	19,269	64,606	-40.5%	-70.2%
Additions to other intangibles	(141,666)	(94,598)		49.8%	
Advance for capital increase in jointly-controlled entity	(74,785)				
Payment for business acquisitions, net of cash of acquired entities		(283,110)	(71,068)		298.4%
Purchases of available for sale securities	(723,285)	(1,371,835)	(2,589,350)	-47.3%	-47.0%
	778,484	1,415,981	2,925,254	-45.0%	-51.6%

Edgar Filing: GERDAU S.A. - Form 20-F

Proceeds from sales of available for sale securities					
<b>Net cash used in investing activities</b>	(2,111,158)	(1,603,062)	(1,048,334)	31.7%	52.9%
<b>Cash flows from financing activities</b>					
Capital increase	3,874,329				
Purchase of own shares	(78,094)	(38,705)	(12,919)	101.8%	199.6%
Dividends and interest on capital paid	(550,706)	(1,018,488)	(328,691)	-45.9%	209.9%
Payment of loans and financing fees	(25,530)	(4,562)	(37,989)	459.6%	-88.0%
Proceeds from loans and financing	1,378,637	3,885,937	4,089,424	-64.5%	-5.0%
Repayment of loans and financing	(3,781,247)	(3,453,158)	(8,469,908)	9.5%	-59.2%
Intercompany loans, net	(90,325)	39,344	(173,549)		
Payment for acquisition of additional interest in subsidiaries		(2,908,969)			
<b>Net cash provided by /(used in) financing activities</b>	727,064	(3,498,601)	(4,933,632)		-29.1%
Exchange variation on cash and cash equivalents	89,641	(68,367)	(303,291)		-77.5%
Increase (Decrease) in cash and cash equivalents	415,565	(1,030,910)	65,335		
Cash and cash equivalents at beginning of year	1,061,034	2,091,944	2,026,609	-49.3%	3.2%
<b>Cash and cash equivalents at end of year</b>	1,476,599	1,061,034	2,091,944	39.2%	-49.3%

Table of Contents

Cash and cash equivalents totaled R\$ 1,476.6 million, R\$ 1,061.0 million and R\$ 2,091.9 on December 31, 2011, 2010 and 2009, respectively, as analyzed below:

*Net cash provided by operating activities*

Net cash from operating activities totaled R\$ 1,710.0 million, R\$ 4,139.1 million and R\$ 6,350.6 in the fiscal years ended on December 31, 2011, 2010 and 2009, respectively.

In 2011, the net cash from operating activities decreased by 58.7% in relation to 2010. This reduction resulted mainly from increased investments on trading securities, due to the Company's capital increase in April, 2011.

In 2010, net cash from operating activities decreased by 34.8% due to new demand levels, which resulted from economic recovery of the international financial crisis and the resulting increased production, which, in turn, affected the Company's working capital needs. From December 31, 2009 to December 31, 2010, the working capital (comprising receivables from clients, plus inventories, minus suppliers) increased by 23.1%, going from R\$ 6,632.2 million in the year ended on December 31, 2009 to R\$ 8,167.5 million in 2010, affected mainly by increased inventories and receivables.

*Net cash used in investing activities*

Net cash used in investing activities increased by 31.7%, going from R\$ 1,603.1 million in the year ended on December 31, 2010 to R\$ 2,111.2 million in 2011, largely due to fixed asset acquisitions in 2011 in connection with the Company's investment plan, particularly in the Brazil business operation.

Net cash used in investing activities increased by 52.9%, going from R\$ 1,048.3 in the year ended on December 31, 2009 to R\$ 1,603.1 in 2010, particularly due to the investment of R\$ 1,269.5 million on fixed and intangible asset acquisition, and R\$ 283.1 million used to pay the acquisition of Tamco.

*Net cash used in financing activities*

Net cash yielded by financing activities went from R\$ 3,498.6 million in the year ended on December 31, 2010 to R\$ 727.1 million in 2011, which reflects the capital increase due to the public offering. Additionally to this operation, part of the capital increase was used to prepay debts in the amount of R\$ 2,058.2 million.

## Edgar Filing: GERDAU S.A. - Form 20-F

In April 2011, the Board of Directors of Gerdau S.A. approved the issuance of 68,026,910 common shares and 134,830,100 preferred shares, resulting in a capital increase of approximately R\$ 3.7 billion, pursuant to a fully registered public offering. On April 18, 2011, the financial settlement of the public offering took place, with a net resource addition of R\$ 3.6 billion in the Company's funds.

Net cash used in financing activities decreased by 29.1% going from R\$ 4,933.6 million in the year ended on December 31, 2009 to R\$ 3,498.6 million in 2010, which is mainly a result of a reduction in loan and financing amortization, despite payment of minority control acquisitions (particularly Gerdau Ameristeel) and increased dividend distribution.

In 2010, the Company repaid loans and financing in the amount of R\$ 3,453.2 million related to the prepayment of the Perpetual Bond in a total of US\$ 600 million (R\$ 1,031 million) and Gerdau Ameristeel's term loan of US\$ 430 million (R\$ 739 million). The Company also paid R\$ 2,909.0 million for interest increase in subsidiaries, mainly the acquisition of the non-controlling interest in Gerdau Ameristeel. In 2009, the Company repaid loans and financing in the amount of R\$ 8,469.9 million. This amount was due to the amortizations and prepayments made in the period, such as the Senior Notes of its U.S. subsidiary, Gerdau Ameristeel, a redemption of US\$ 405 million (R\$ 764 million) with annual coupon of 10.375% and maturity in 2011. The total value of the redemption was US\$ 412.3 million (R\$ 777.8 million). Gerdau Ameristeel also prepaid US\$ 300 million (R\$ 522 million) in debt. Another important impact was the foreign exchange variation effect of 25.5% in the period over the debt contracted in U.S. dollar.

The proceeds of loans and financing amounted to R\$ 3,885.9 million in 2010 and R\$ 4,089.4 million in 2009. In 2010, the Company issued a 10-year maturity bond to pay for acquisitions (non-controlling interests from Gerdau Ameristeel and Tamco) and prepay certain loans and financings.

Table of Contents**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 in the years ended December 31, 2011, 2010 and 2009 (in thousands of Brazilian *reais*):

	2011	2010	2009
<b>SHORT TERM:</b>	<b>1,756,993</b>	<b>1,693,037</b>	<b>1,356,781</b>
<b>Total short-term debt</b>	<b>1,099,273</b>	<b>951,905</b>	<b>735,197</b>
Debt denominated in Brazilian <i>reais</i>	426,046	157,108	390,552
Debt denominated in foreign currency	673,227	794,797	344,645
<b>Current portion of long-term debt</b>	<b>616,032</b>	<b>626,063</b>	<b>621,584</b>
<b>Debentures</b>	<b>41,688</b>	<b>115,069</b>	
<b>LONG TERM:</b>	<b>11,926,535</b>	<b>12,976,958</b>	<b>13,164,134</b>
<b>Total long-term debt</b>	<b>11,798,322</b>	<b>12,986,119</b>	<b>13,184,739</b>
Debt denominated in Brazilian <i>reais</i>	1,991,673	2,436,795	1,852,905
Debt denominated in foreign currency	9,806,649	10,549,324	11,331,834
<b>Current portion of long-term debt</b>	<b>(616,032)</b>	<b>(626,063)</b>	<b>(621,584)</b>
<b>Debentures</b>	<b>744,245</b>	<b>616,902</b>	<b>600,979</b>
<b>TOTAL DEBT:</b>	<b>13,683,528</b>	<b>14,669,995</b>	<b>14,520,915</b>
Short and long-term investments, cash and cash equivalents	4,578,248	2,203,292	4,819,348
<b>NET DEBT(1)</b>	<b>9,105,280</b>	<b>12,466,703</b>	<b>9,701,567</b>

(1) The calculation of net debt is made by subtracting short-term investments, cash and cash equivalents from total debt. Net debt is not a GAAP measure recognized under IFRS and should not be considered in isolation from other financial measures. Other companies may calculate net debt differently and therefore this presentation of net debt may not be comparable to other similarly titled measures used by other companies.

Total debt amounted to R\$ 13,683.5 million, R\$ 14,670.0 million and R\$ 14,520.9 million in the years ended December 31, 2011, 2010 and 2009, respectively. Net debt (Net Debt is a non-gaap metric defined as short- and long-term debt plus debentures less short and long-term investments and cash and cash equivalents, broadly used by investors to measure Company's indebtedness position) decreased from R\$ 12,466.7 million in 2010 to R\$ 9,105.3 million in 2011. This decrease of R\$ 3,361.4 million is mainly due to the capital increase of R\$ 3,597.8 million concluded in April 2011. Net debt increased from R\$ 9,701.6 million in 2009 to R\$ 12,466.7 million in 2010. This increase of R\$ 2,765.1 million is due to a reduction in short and long-term investments, cash and cash equivalent mainly to pay the acquisition of non-controlling interest of Gerdau Ameristeel.

Of the total debt at December 31, 2011, 12.8% was short-term and 87.2% was long-term. In 2010, 11.5% was short-term and 88.5% was long-term and in 2009, short-term debt accounted for 9.3%, while the remaining balance was long-term.

As of December 31, 2011, the Company's short-term debt amounted to R\$ 1,099.3 million. Of this total, R\$ 426.0 million was related to financing in Brazilian *reals* and R\$ 673.2 million to financing in foreign currencies. In 2011, short-term debt plus the current portion of long-term debt and debentures amounted to R\$ 1,757.0 million, representing an increase of 3.8% relative to 2010. As of December 31, 2010, the Company's short-term debt amounted to R\$ 951.9 million. Of this total, R\$ 157.1 million was related to financing in Brazilian *reals* and R\$ 794.8 million to financing in foreign currencies. At the same date, short-term debt plus the current portion of long-term debt and debentures amounted to R\$ 1,693.0 million, representing an increase of 24.8% relative to 2009. The increase in the short-term debt was related to an increase in working capital needs.

Table of Contents

The Company's long-term debt, as of December 31, 2011 amounted to R\$ 11,798.3 million. Of this total, R\$ 1,991.7 million was denominated in Brazilian *reais* and R\$ 9,806.6 million in foreign currencies. In 2011, long-term debt plus the current portion of long-term debt and debentures amounted to R\$ 11,926.5 million, representing a decrease of 8.1% relative to 2010, mainly due to pre-payment of debts totaling R\$ 2,058.2 million. As of December 31, 2010, the Company's long-term debt amounted to R\$ 12,986.1 million. Of this total, R\$ 2,436.8 million was denominated in Brazilian *reais* and R\$ 10,549.3 million in foreign currencies. At the same date, long-term debt plus the current portion of long-term debt and debentures amounted to R\$ 12,977.0 million, representing a decrease of 1.4% relative to 2009.

As of December 31, 2011, the maturity profile of the Company's long-term debt with financial institutions, including debentures, was as follows:

**Gerdau S.A. Consolidated**

<b>Long-Term Amortization</b>	<b>(R\$ million)</b>
2013	1,727
2014	1,173
2015	518
After 2015	8,509
<b>Total</b>	<b>11,927</b>

**Financial Agreements**

We highlight the material financial agreements outstanding at year end 2011:

## Term Loan Facility

On September 10, 2007, the subsidiaries Gerdau Ameristeel US Inc. and GNA Partners entered into a Senior Acquisition Financing in the amount of US\$ 2.75 billion and final maturity on September 14, 2013. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A, Gerdau Ameristeel Corporation and Gerdau Açominas Overseas Limited. On April 21, 2011 the company has totally prepaid the Term Loan Facility in the amount of US\$ 1.3 billion (R\$ 2.1 billion as of April 21, 2011).

## Bond 2017

On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the issue of bonds in the amount of US\$ 1.00 billion with subsequent reopening of US\$ 500 million, totalizing US\$ 1.5 billion and final maturity on October 20, 2017. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.5 billion (R\$ 2.8 billion as of December 31, 2011).

Bond 2020

On November 18, 2009, the subsidiary Gerdau Holdings Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 20, 2020. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2011).

IFC Loan Agreement

In February 2010, Kalyani Gerdau Steels Limited entered into a US\$25 million loan agreement with International Finance Corporation guaranteed by the Company, with a tenor of ten years.



Table of Contents

4131 Banco do Brasil

On June 25, 2010, the subsidiary Gerdau Açominas S.A. concluded a working capital financing operation with Banco do Brasil S.A., Tokyo Branch, worth US\$ 350 million, maturing on June 22, 2015. The agreement is guaranteed by a letter of credit issued by Banco do Brasil S.A. On December 31, 2011, the outstanding balance of the operation amounted to US\$ 350.0 million (R\$ 656.3 million on December 31, 2011). The issue was aimed at lengthening the Company's debt profile, and its proceeds were used to settle two obligations with shorter terms. The obligations that were prepaid are: 4131 Banco do Brasil worth US\$ 200.0 million and 4131 Bradesco worth US\$ 150.0 million.

Export Credit Note (NCE) 20/00726-4

On June 30, 2010, the subsidiary Gerdau Açominas S.A. issued an Export Credit Note worth R\$200.0 million, maturing on June 9, 2014, with Banco do Brasil S.A. acting as the creditor. On December 31, 2011, the outstanding balance of the operation amounted to R\$180.0 million.

Export Credit Note (NCE) 20/00727-2

On July 1, 2010, the subsidiary Gerdau Açominas S.A. issued an Export Credit Note worth R\$150.0 million, maturing on June 9, 2014, with Banco do Brasil S.A. acting as the creditor. On December 31, 2011, the outstanding balance of the operation amounted to R\$ 135.0 million.

BNDES Agreements

In July 2010, Aços Villares S.A., now incorporated by Gerdau S.A, entered into three loan agreements with Banco Santander (Brasil) S.A., HSBC Bank Brasil S.A. Banco Múltiplo and Banco Alfa de Investimento S.A. by means of which these banks will on-lend, to Aços Villares S.A., funds provided by the BNDES in the total amount of R\$250 million. The agreements have a tenor of three years.

In October 2010, Gerdau Açominas S.A entered into a loan agreement with Itaú Unibanco S.A., by means of which this bank will on-lend, to Gerdau Açominas, funds provided by the BNDES in the total amount of R\$60 million. The agreements have a total tenor of one year and two months.

Bond 2021

On October 1, 2010, the subsidiary Gerdau Trade Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau

## Edgar Filing: GERDAU S.A. - Form 20-F

Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2011). Part of the proceeds of this issue were used to prepay the Perpetual Bonds on September 22, 2010, in the amount of US\$ 600 million. The Perpetual Bonds were issued on September 15, 2005 and had no final maturity date.

### ECGD - Export Credits Guarantee Department

In June 16, 2011, the subsidiary Gerdau Açominas S.A. concluded a transaction in the total amount of US\$ 251.5 million and maturity date on August, 2023. The Company guarantees this transaction. The following financial institutions are lender parties in this transaction: Deutsche Bank AG, London Branch; HSBC Limited, Tokyo Branch; Citibank Europe plc e BNP Paribas. This transaction is covered by ECGD (Export Credits Guarantee Department), the English export credit agency. As of December 31, 2011, the outstanding amount of this transaction was US\$ 76.9 million (R\$ 144.3 million as of December 31, 2011).

### Guarantees

All loans contracted under the FINAME/BNDES program, totaling R\$ 76.4 million, on the date of the Consolidated Financial Statements, are secured by the assets being financed.

### Covenants

As an instrument to monitor the financial condition of the Company by its creditors, financial covenants are used in certain financial agreements.

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 Consolidated Financial Statements of Metalúrgica Gerdau S.A., 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 requires that the EBITDA for the

Table of Contents

last 12 months should represent at least 3 times of the interest expense of the same period. As of December 31, 2011 such covenant was 4.3 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 the EBITDA for the last 12 months. As of December 31, 2011 such covenant was 2.9 times.

III) Required Minimum Net Worth measures the minimum net worth required in financial agreements. The contractual ratio requires that the Net Worth must be greater than R\$ 3,759,200. As of December 31, 2011, the Net Worth was R\$ 26.5 billion; and

IV) Current Ratio measures the company's ability in fulfilling its short term obligations. The contractual terms requires that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2011 the current ratio was 2.6 times.

The Company discloses to the market the adjusted EBITDA (earnings before interest, income tax and social contribution, depreciation, amortization and reversal (losses) from the non recoverability of assets and restructuring costs). EBITDA is not a measure used in generally accepted accounting practices and does not represent cash flow in the periods presented, and therefore should not be considered an alternative to cash flow as a liquidity indicator. EBITDA is not standardized and thus is not comparable to the EBITDA of other companies.

Pursuant to the agreements, the penalty for non-compliance with such covenants is the possibility of a declaration of default by the banks and acceleration of maturity of the Company's loans.

As of December 31, 2011 and as of the date of this Annual Report on Form 20-F, the Company was in compliance with all contractual covenants related to its financial agreements.

Based on the Company's internal forecasts, the Company does not expect to be in breach of any of the financial covenants over the next twelve months. Nevertheless, this forecast can be affected positive or negatively by the global economics and the steel market.

Credit Lines

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500 million bearing interest rate of TJLP + 2.21% per annum when drawn. The transaction is guaranteed by Metalúrgica Gerdau S.A.. On December 31, 2011 the outstanding amount was R\$ 228.3 million.

On August 18, 2011, the Company concluded the Senior Unsecured Global Working Capital Credit Agreement which is a US\$ 1 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The following companies guarantee this agreement: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A and Gerdau Comercial de Aços S.A. The line is divided into two tranches of US\$ 500 million each. One of the tranches is for Gerdau's North American subsidiaries borrowing needs and the other is for Gerdau's Latin American and Spanish subsidiaries' borrowing needs. Due to this credit line agreement, the others credit lines the North American subsidiaries and the subsidiary Gerdau MacSteel Inc. held were canceled. This transaction has a tenor of 3 years. As of December 31, 2011, the outstanding loans under the line totaled US\$ 329,8 million (R\$ 618.6 million as of December 31, 2011) and are classified as working capital (US\$)

***Derivatives, Off-Balance Sheet Arrangements and Contractual Obligations***

For more details see letter E OFF BALANCE SHEET ARRANGEMENTS

***Guarantees Granted***

The Company has guaranteed the financing contracts of Gerdau Açominas S.A. in the amount of R\$ 1,531 million on December 2011.

The Company is the guarantor for the subsidiary Empresa Siderúrgica del Perú S.A.A. Siderperú for a secured loan in the amount of US\$ 150 million (R\$ 281.370 million as of December 31, 2011) with Scotia bank and Banco de Crédito del Perú. On December 31, 2011, the outstanding amount of this facility was US\$ 87.5 million (R\$ 164.1 million). The Company is also the guarantor for a credit facility of US\$ 75 million (R\$ 140.7 million as of December 31, 2011) for this same subsidiary with BBVA. On December 31, 2011, the outstanding amount of this facility was US\$ 67.5 million (R\$ 126.6 million).

Table of Contents

The Company is the guarantor for the associated Kalyani Gerdau Steels Limited for a financing contract in the amount of US\$25 million with International Finance Corporation issued in February, 2010, with a tenor of ten years.

The Company is the guarantor for the associated company Industrias Nacionales C. por A., for a financing contract in the amount of US\$ 25 million (R\$ 46.9 million as of December 31, 2011), issued on April, 2011.

The Company is the guarantor for the associated company Industrias Nacionales C. por A., for a financing contract in the amount of US\$ 34.935 million (R 65.465 million as of December 31,2011) covered by SACE.

The Company is the guarantor of the jointly-owned subsidiary Dona Francisca S.A. for financing contracts in the amount of R\$ 24 million on December 31, 2011, corresponding to a joint liability of 51.82% of the amount.

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) in the amount of US\$ 1.5 billion (R\$ 2.8 billion as of December 31, 2010)

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 Gerdau Holdings Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2010).

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 Gerdau Trade Inc for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2010).

The Company is the guarantor for the subsidiary Diaco S.A. for a financing contract in the amount of COP\$ 61.5 billion equivalent to US\$ 35 million (R\$ 65.7 million as of December 31, 2011).

The Company provides guarantee for its subsidiary Gerdau Aços Especiais S.A. in a purchase contract of electric energy in the total amount of R\$ 8.4 million (US\$ 4.5 million as of December 31, 2011).

The Company is the guarantor for the associated Gerdau Corsa S.A. for a credit line facility in the amount of US\$ 44.5 million (R\$ 83.5 million as of December 31, 2011).

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company is the guarantor for the subsidiary Empresa Siderurgica Del Perú S.A.A., co-borrower of the global credit line, for working capital financing in the amount of US\$ 80 million (R\$ 150.1 million as of December 31, 2011).

The Company is the guarantor for the subsidiary Industrias Nacionales C. por A., co-borrower of the global credit line, for working capital financing in the amount of US\$ 60.9 million (R\$ 114.2 million as of December 31, 2011).

The Company is the guarantor for the subsidiary Diaco S.A, co-borrower of the global credit line, for working capital financing in the amount of US\$ 10 million (R\$ 18.8 million as of December 31, 2011), US\$ 35 million (R\$ 65.7 million as of December 31, 2011) and US\$ 60 million (R\$ 112.5 million as of December 31, 2011).

The Company is the guarantor for the subsidiary Aceros Corsa S.A de C.V., co-borrower of the global credit line, for working capital financing in the amount of US\$ 73 million (R\$ 137 million as of December 31, 2011).

The Company is the guarantor for the subsidiary Siderurgica Tultitlán S.A de C.V., co-borrower of the global credit line, for working capital financing in the amount of US\$ 10.9 million (R\$ 20.4 million as of December 31, 2011).

### Derivatives

Risk management objectives and strategies: The Company believes that risk management is important 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 final 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 from 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 Consolidated Financial Statements of the Company.

Table of Contents

By internal policy, the Company does not maintain a debt in a currency in which there is no corresponding cash generation.

Policy for use of derivatives: according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. Therefore, it 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 criteria to determine 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. The methods and assumptions take into consideration the interpolation of curves, such as in the case of LIBOR, and according to each market where the company has exposure. The swaps, both on the asset and on the liability side, are estimated in separate and discounted to present value. The difference in the result between extremities generates the swaps market value. The amounts are calculated based on models and rates available in the market and which take into consideration both present and future market conditions. Amounts are gross before taxes. 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 (NDFs):

Subsidiary Cleary Holdings settled the NDF s that were designated as cash flow hedges which matured on February 4, 2011 and March 4, 2011. These NDF s were contracted to hedge against the exchange fluctuations of the US dollar in relation to the local currency, which could impact its export revenue and, therefore, impair its margins. As of December 31, 2011, these NDF s generated a gain of R\$ 370, which were presented in the account Gains and losses on derivatives, net in the consolidated statement of income. The counterparty to this transaction was Banco de Bogota (Bogota Bank).

Subsidiary Cleary Holdings settled the NDF s that were designated as cash flow hedges which matured on December 22, 2011. These NDF s were contracted to hedge against the exchange fluctuations of the US dollar in relation to the local currency, which could impact its export revenue and, therefore, impair its margins. As of December 31, 2011, these NDF s generated a loss of R\$ 316, which were presented in the account Gains and losses on derivatives, net in the consolidated statement of income. The counterparty to this transaction was Banco de Bogota (Bogota Bank).

Subsidiary Diaco S.A. settled forward designated as cash flow hedge, which matured on April 7, 2011. These transactions were contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. As of December 31, 2011, the effect of this instrument in the statement of income was a loss of R\$ 106, which were presented in the account Gains and losses on derivatives, net in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

## Edgar Filing: GERDAU S.A. - Form 20-F

Subsidiary Diaco S.A. settled forward designated as cash flow hedges, which matured on October 7, 2011. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. As of December 31, 2011, the effect of this instrument in the statement of income was a loss of R\$ 505 which were presented in the account Gains and losses on derivatives, net in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

Subsidiary Diaco S.A. contracted Non Deliverable Forwards designated as cash flow hedges, with notional amount of US\$ 10.0 million (R\$ 18,758 as of December 31, 2011) with maturity date on September 24, 2012. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. The fair value of this contract represents a gain of R\$ 140 and it was presented in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

Subsidiary Diaco S.A. contracted Non Deliverable Forwards designated as cash flow hedges, with notional amount of US\$ 60.0 million (R\$ 112,548 as of December 31, 2011) with maturity date on December 12, 2012. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. The fair value of this contract represents a loss of R\$ 314 and it was presented in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

The prospective and retrospective testing made for above financial instruments does not identify any amount of ineffectiveness.



Table of Contents

Swap Contracts

Interest rate swap

The subsidiary Gerdau Ameristeel Corp. settled in advance interest rate swap contract qualified as a cash flow hedge with mature between March 2012 and September 2013. These operations were contracted 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. As of December 31, 2011 the effect of these swaps in the statement of income was a loss of R\$ 68,698, which was presented in the account Gains and losses on derivatives, net in the consolidated statement of income. The counterparts to this transaction were ABN Amro Bank, HSBC, and JP Morgan.

The Company through its subsidiary GTL Equity Investments Corp. settled swap of Exchange Coupon versus Libor with the bank JP Morgan which matured between December 21, 2010 and December 21, 2011. This operation was entered into in order to take advantage of 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. The fair value adjustment of these contracts as of December 31, 2011 results in a gain of R\$ 3,722 which were presented in the account Gains and losses on derivatives, net .

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú entered into a Libor 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 has a notional value of US\$ 35.71 million (R\$ 66,985 as of December 31, 2011) and maturity date on April 3, 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 adjustment of this contract as of December 31, 2011 results in a net loss of R\$ 3,674 presented in the statement of income. The counterparty to this transaction is Banco Bilbao Vizcaya -BBVA.

The subsidiary Gerdau Açominas S.A. entered into an interest rate swap with a notional value of US\$ 350 million (R\$ 656,530 as of December 31, 2011) and a maturity date of June 22, 2015, on which the financial charges agreed on the debt contract with Banco do Brasil, equivalent to LIBOR plus a percentage of interest, are exchanged for pre-determined interest rates. The fair value adjustment of this contract as of December 31, 2011 results in a net loss of R\$ 1,339 presented in the statement of income. The counterparts of this operation are the following banks: HSBC, Citibank and Morgan Stanley.

For further information regarding to Swap Contracts (Interest Rate Swap and Cross Currency Swap) refer to Note 15 Financial Instruments, item e) Operations with Derivative Financial Instruments.

**Capital Expenditure**

**2011 Capital Expenditure**

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

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

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

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

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

Table of Contents

**2010 Capital Expenditure**

In fiscal year 2010, capital expenditure on fixed assets was R\$ 1,288.7 million. Of this total, 69.3% was allocated to Brazil Business Operation units and the remaining 30.7% was allocated to the other businesses operations. The Company invested R\$ 3,192.1 million (net of cash) in acquisitions during 2010.

*Brazil Business Operation* a total of R\$ 893.7 million was invested in this operation for capital expenditure. The major part of this investment was for the installation of heavy plates and hot-rolled coil rolling mills at the Açominas mill.

*North America Business Operation* this business operation spent R\$ 3,178.3 million on capital projects and acquisitions in 2010. On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, paying a total of R\$ 2,808.9 million. The Company also paid approximately R\$ 283.1 million for the acquisition of Tamco, a company based in the state of California, US.

*Latin America Business Operation* in 2010, the Latin American units spent R\$ 310.9 million, from which R\$ 209.8 million were capital expenditure on fixed assets for the substitution of an electric arc furnace in Peru. In the same period the Company acquired an additional stake of 49.1% in Cleary Holdings Corp. for R\$ 101.1 million.

*Special Steel Business Operation* the special steel units spent R\$ 97.9 million in 2010, for capital expenditure on fixed assets equally distributed throughout the countries which compose this business operation.

**2009 Capital Expenditure**

In fiscal year 2009, capital expenditure on fixed assets was R\$ 1,313.2 million. Of this total, 57.2% was allocated to Brazil Business Operation units and the remaining 42.8% was allocated to the other businesses operations. The Company invested R\$ 71.1 million (net of cash) in acquisitions during 2009.

*Brazil Business Operation* a total of R\$ 788.4 million was invested in Brazil BO for capital expenditure. The major part of this investment was for the installation of continuous slab casting at the Açominas mill. In the same period the Company also acquired Maco Metalúrgica Ltda. for R\$ 4.2 million.

*North America Business Operation* this business operation spent R\$ 162.8 million on capital projects, representing 11.6% of total capital expenditure on fixed assets, primarily for project of the new finishing-end area at Wilton (USA) and modernization of the reheating furnace at Midhlotian (USA).

*Latin America Business Operation* in 2009, the Latin American units spent R\$ 351.1 million, summing 25.1% of total capital expenditure on fixed assets for the installation of the new melt shop at Tocancipá (Colombia) and capacity expansion of the rolling mill and melt shop at Sidertul (Mexico). In the same period the Company also acquired an additional stake of 4.9% in Gerdau América Latina Participações S.A. for R\$ 66.9 million.

*Special Steel Business Operation* the special steel units spent R\$ 75.5 million in 2009, representing 5.4% of total capital expenditures to the installation of bloom casting at Sidenor (Spain) and the increase in continuous casting speed at Aços Especiais Piratini (Brazil).

#### **Main Capital Expenditure Currently in Progress**

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

Table of Contents

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

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

(2) Investment with approval in stages.

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

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.**

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

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

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

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment the Company uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. The Company has technology transfer agreements with Nippon Steel, Kyoei Steel, Thyssen, Daido Steel and BSW.

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

Gerdau works continuously to monitor and anticipate the needs of its customers. For this, has a research and development centers in Brazil, the United States and Spain used to meet the markets for special steel, especially for the automotive industry. The Company invested in research and development R\$ 127.5 million in 2009, R\$ 214.7 million in 2010 and R\$ 210.9 million in 2011.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business.

Table of Contents

**D. TREND INFORMATION**

Studies from the World Steel Association indicate that world steel consumption should grow by 5.4% in 2012, to reach 1.5 billion tonnes. About 70% of the world steel consumption should occur in the developing economies, which Gerdau has a representative portion of its operations.

According to data from the Brazilian Steel Institute, Brazil steel consumption is expected to grow 7%, reaching 26.7 million tonnes of steel in 2012, supported by solid GDP growth in the period. Brazilian Central Bank estimates call for GDP growth of 3.3% in the year. In the construction industry growth is expected to remain robust, with estimates from Brazilian Central Bank pointing to growth in Brazil's civil construction of 5% in 2012, growth rate higher than in 2011. In the manufacturing industry the Brazilian Central Bank is projecting GDP growth of 3% in 2012 for the sector.

The IMF projects GDP growth in North America for 2012 at 1.8%. This positive outlook is also supported by data from the World Steel Association, which points to steel consumption growing by 5% in 2012 to reach 94 million tonnes. The highlight in this scenario is the expected continued recovery in industrial construction, especially for energy projects, and the expected need for investments in infrastructure projects over the coming years.

In Latin America (excluding Brazil), for 2012, the estimates are optimistic, with GDP in the region projected to grow by 3.6% in 2012. According to the World Steel Association, steel consumption in Latin America, excluding Brazil, should reach 42 million tonnes in 2012, a growth of 5% over 2011, which should support a gradual increase in per-capita steel consumption in the region, which still remains at low levels.

The outlook for the special steel market in 2012 is also positive. In the United States, medium and heavy vehicle production is forecasted to grow 10% in 2012. In Brazil, the ANFAVEA (Vehicle Manufacturers Association) forecasts vehicle production to grow 2% in 2012. In India, the vehicle production is estimated to grow 14% in 2012, according to the Society of Indian Automobile Manufacturers (SIAM).

**E. OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

The Company is a guarantor of associate company Industrias Nacionales C. por A. in an agreement with BNP Paribas to finance constructions and auxiliary equipment totaling US\$ 25 million (R\$ 46,895 as of December 31, 2011). The Company is also guarantor of this same associate in an agreement with BNP Paribas to finance 85% of the principal equipment in the amount of US\$ 34.9 million (R\$ 65,465 as of December 31, 2011). On December 31, 2011 the amount used was US\$ 32.9 million (R\$ 61,672).

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R\$ 23,991, corresponding to a joint liability of 51.82% of the amount.

The Company provides guarantee to a line of credit to working capital to its joint-controlled entity Gerdau Corsa SAPI de C.V., with BBVA bank, in the amount of US\$ 44.5 million (R\$ 83,473 as of December 31, 2011).

The Company is the guarantor of the associate Industrias Nacionales C. por A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 60.9 million (R\$ 114,154 as of December 31, 2011).



Table of Contents**F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The table below sets forth the Company's contractual obligations on December 31, 2011.

Contractual obligations (R\$ thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Short-term debt obligations (1)	1,099,273	1,099,273			
Long-term debt obligations (1)	11,798,322	616,032	2,431,794	745,927	8,004,569
Debentures (1)	785,933	41,688	467,937		276,308
Interest payments	3,263,395	502,369	990,970	808,975	961,081
Interest rate swap	5,327	314	3,674	1,339	
Operating lease obligations (2)	145,955	43,586	69,888	26,020	6,461
Capital expenditures (3)	2,140,674	1,650,387	490,287		
Unconditional purchase obligations (4)	378,257	378,257			
Pension funding obligations (5)	176,054	151,342	4,268	4,501	15,943
Put option the remaining stake in PCS acquisition (6)	4,723		4,723		
Put option granted to Santander Group on Corporación Sidenor acquisition (7)	528,821		528,821		
<b>Total</b>	<b>20,326,734</b>	<b>4,483,248</b>	<b>4,992,362</b>	<b>1,586,762</b>	<b>9,264,362</b>

(1) Total amounts are included in the December 31, 2011 consolidated balance sheet. See Note 13 - Loans and Financing and Note 14 - Debentures in the consolidated financial statements.

(2) Includes minimum lease payment obligations for equipment and real property leases in effect as of December 31, 2011.

(3) Purchase obligations for capital expenditures correspond to and are related to capital projects. The full amount relates to capital projects agreements where Gerdau has irrevocably committed with suppliers to acquire equipment. As the equipment had not been received by December 31, 2011, the corresponding liability has not yet been recorded in its current financial statements.

(4) The majority of other purchase obligations are for inventory and operating supplies and expenses used in the ordinary course of business.

(5) Pension funding obligations are included as per actuarial computations made by third party actuaries.

(6) Gerdau Ameristeel has the call option for 1% of the remaining stake in PCS, which can be exercised as from November 1, 2011. Additionally, the minority shareholders also have the option to sell the remaining 1% stake in PCS to Gerdau Ameristeel, for the established price and also after November 1, 2014. See Note 15.f Financial Instruments to the consolidated financial statements included herein.

(7) During 2006, the Company entered into an agreement to acquire an interest of 40% of Corporación Sidenor, but also granted a put option to Santander Group, which acquired another stake of 40% of Corporación Sidenor. According to this put option, Santander Group has the option to sell its interest in Corporación Sidenor to the Company on January 10, 2014, with the option of exercise in advance in January of each year, starting in 2012. See Note 15.f Financial Instruments to the consolidated financial statements included herein.

## G. SAFE HARBOR

See the disclaimer with respect to Forward-Looking Statements.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**JORGE GERDAU JOHANNPETER** (born in 1936) has worked for the Gerdau Group since 1954. He and his brothers, Germano, Klaus and Frederico, started their careers as apprentices. Jorge Johannpeter became an Executive Officer in 1971 and a member of the Board of Directors in 1973. In 2002, after the implementation of the new corporate governance structure, he also became the President of the Gerdau Executive Committee (CEO). Since 1983 he has been the Chairman of the Board of Directors of Gerdau S.A and of the parent company Metalúrgica Gerdau S.A and the subsidiary Seiva S.A Florestas e Indústrias. On January 2, 2007, Jorge Gerdau Johannpeter retired from the Gerdau Executive Committee and since then he has been serving exclusively as a member of the Board of Directors, as its President. In addition, he is a member of the Board of Directors of the Instituto Aço Brasil IABR (Brazilian Steel Institute) and a member of the board of directors of the World Steel Association. Jorge Johannpeter has also been a member of the Board of Directors of Petróleo Brasileiro S.A Petrobrás since October 19, 2001 and a member of the board of directors of Petrobrás Distribuidora S.A. BR. Furthermore, he is a member of the Conselho de Desenvolvimento Econômico e Social CDES (Economic and Social Development Council), an advisory body to the

Table of Contents

Brazilian federal government, and the president of the Câmara de Políticas de Gestão, Desempenho e Competitividade – CGDC (Competitiveness and Management Council), a body linked to the CDES. Jorge Johannpeter has also actively participated of non-profitable organizations, as a member of the deliberative council of Parceiros Voluntários (Volunteer Partners), chairman of Programa Gaúcho da Qualidade e Produtividade PGQP (Quality and Productivity Program of the State of Rio Grande do Sul), which is the founder of Movimento Brasil Competitivo (Competitive Brazil Movement). Jorge Gerdau Johannpeter holds a degree in Law from the Federal University of Rio Grande do Sul.

**GERMANO HUGO GERDAU JOHANNPETER** (born in 1932) has worked for the Gerdau Group since 1951. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. Currently, he has been serving exclusively to the Board of Directors. He is also a Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias. He holds a degree in Business Administration from the Getúlio Vargas Foundation.

**KLAUS GERDAU JOHANNPETER** (born in 1935) has worked for the Gerdau Group since 1954. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. Currently, he has been serving exclusively to the Board of Directors. He is also the Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A. and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias. He holds a degree in Civil, Electrical and Mechanical Engineering from the Federal University of Rio Grande do Sul.

**FREDERICO CARLOS GERDAU JOHANNPETER** (born in 1942) has worked for the Gerdau Group since 1961. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. Under the new Corporate Governance structure, he also became Senior Vice President of the Gerdau Executive Committee until December, 2006. From January 2, 2007, he has served exclusively as a Vice Chairman of the Board of Directors. He is also the Vice Chairman of the Board of Directors of the parent company Metalúrgica Gerdau S.A. and a member of the Board of Directors of the subsidiary Seiva S.A. Florestas e Indústrias. He holds a degree in Business Administration from the Federal University of Rio Grande do Sul and a master's degree in Business, Finance, Costs and Investments from the University of Cologne, Germany.

**AFFONSO CELSO PASTORE** (born in 1939) has been an Independent Board Member of Gerdau since 2002. He is also a member of the board of directors of the controller company Metalúrgica Gerdau S.A. In addition he has been a member of the board of directors of Even Construtora e Incorporadora S.A. since February 2010 and a member of the board of directors of M. Dias Branco S.A. Indústria e Comércio de Alimentos since July, 2010. Affonso Celso Pastore is also Professor at the Getulio Vargas Foundation in Rio de Janeiro and an independent economics advisor. He was the Secretary of the São Paulo Treasury Department and President of the Brazilian Central Bank. He is the founder partner of A C Pastore Associados SS Ltda. a consulting company specialized in economic analysis of the Brazilian and international economy. He holds a degree in Economics from the University of São Paulo and a PhD in Economics from the same university.

**OSCAR DE PAULA BERNARDES NETO** (born in 1946) has been elected as an Independent Board Member since 2002 and he is also a member of the Board of Directors of the controller company Metalúrgica Gerdau S.A. In addition, he holds the following positions in other companies: (i) a member of the Board of Directors and Audit Committee of Companhia Suzano de Papel e Celulose; (ii) a member of the Board of Directors of São Paulo Alpargatas S.A; (iii) a member of the Board of Directors, Audit Committee and Risks Committee of Localiza Rent a Car; (iv) a member of the Board of Directors and Chairman of the Human Resources Committee of DASA Medicina Diagnóstica da América Latina; (v) a member of the Board of Directors, Financing Committee and Corporate Governance of Praxair Inc. (USA); (vi) senior consultant for the CEO of Johnson Electric (Hong-Kong); (vii) Member of Consultative Councils of Davos Participações Ltda; Bunge Brasil S.A; Alcoa Brasil and Amyris Brasil S.A. e da da Integra Associados. He holds a degree in Chemical Engineering and Business Administration from the Federal University of Rio de Janeiro (UFRJ).

**ALFREDO HUALLEM** (born in 1946) has worked for the Gerdau Group since 1975, He was promoted to Executive Officer in 1993 and since December 2007, he became a member of the Gerdau Executive Committee responsible for the Business Operation Long Steel Brazil. Since July 2009, keeping his position as an Executive Committee member, Alfredo was assigned responsible for Gerdau Commercial Process. Since December 31, 2011, Alfredo Huallem is no longer an Officer of the Company nor a member of the Gerdau Executive Committee, but he has become a member of the Board of Directors of Gerdau S.A and the controller company Metalúrgica Gerdau S.A, since February 01, 2012. He graduated in Metallurgical Engineering from the UFF Universidade Federal Fluminense, Economic Engineering from the Pontifical Catholic University of Rio de Janeiro, and Strategic Marketing from Stanford.

**ANDRÉ BIER GERDAU JOHANNPETER** (born in 1963) has worked for the Gerdau Group since 1980. He is the President of the Company, in the position of Chief Executive Officer ( CEO ) since January, 2007 and president of the Gerdau Executive Committee. At the beginning of 2008 he became a member of the Board of Directors. He is also a member of the Strategy Committee of the Board of Directors. In addition, he is a member of the Board of Directors,

Table of Contents

President Officer and president of the Executive Committee of the parent company Metalúrgica Gerdau S.A. and President Officer of the subsidiary Seiva S.A Florestas e Indústrias. Furthermore, he is the president of the Board of Management of Instituto Aço Brasil IABR (Brazilian Steel Institute) and member of the Conselho Econômico e Social do Rio Grande do Sul CDES RS (a organization created to analyze, discuss and propose guidelines to promote economic and social development for the State of Rio Grande do Sul). He graduated in Business Administration from the Pontifícia Universidade Federal do Rio Grande do Sul (PUC RS). He studied General Business Administration at the University of Toronto (Canada), Marketing at the Ashridge Business School (UK), and Advanced Management at the Wharton School, University of Pennsylvania (United States).

**CLAUDIO JOHANNPETER** (born in 1963) joined the Company in 1982. He became an executive officer in 1997, and holds the position of Chief Operating Officer ( COO ) and member of the Gerdau Executive Committee since 2007. At the beginning of 2008 he became a member of the Board of Directors. He is also a member of the Board of Directors, COO and member of the Executive Committee of the parent company Metalúrgica Gerdau S.A and an Officer of the subsidiary Seiva S.A Florestas e Indústrias. He graduated in Metallurgical Engineering from the Federal University of Rio Grande do Sul (UFRGS) and studied Operations Management at the University of London, Executive Development at Penn State (United States), and in the Advanced Management Program at Harvard (United States).

**OSVALDO BURGOS SCHIRMER** (born in 1950) joined the Company in 1986 and was appointed Financial Executive Officer in 1987. Today he holds the positions of Executive Vice President of the Gerdau Executive Committee (since 2002), Chief Financial Officer (CFO) and Investor Relations Executive Officer of Gerdau S.A. He is also Executive Vice President of Executive Committee, Chief Financial Officer (CFO) and Investor Relations Executive Officer of the parent company Metalúrgica Gerdau and Officer of the subsidiary Seiva S.A. - Florestas e Indústrias. Osvaldo Burgos Schirmer graduated in Business Administration from the Federal University of Rio Grande do Sul in 1973, and holds an MBA from Illinois University. He previously held a position as an executive officer at the Iochpe-Maxion Group, a holding company for companies in the auto parts and railroad equipment sectors.

**EXPEDITO LUZ** (born in 1951) has worked for Gerdau since 1976 and in 1989 became an Executive Officer of the Legal Department. He was appointed to the Board of Directors in 2001 and under the new corporate governance structure he is now Secretary-General of the Board of Directors. Expedito also holds the position of Executive Vice President, Legal and Compliance and member of the Gerdau Executive Committee. He is also Executive Vice President, Legal and Compliance and member of the Executive Committee of the parent company Metalúrgica Gerdau S.A and an Officer of Seiva S.A Florestas e Indústrias. Expedito Luz graduated in Law from the Federal University of Rio Grande do Sul in 1975 and obtained a master's degree in Law from the Columbia Law School in New York in 1980.

**MANOEL VITOR DE MENDONÇA FILHO** (born in 1957) has worked for the Gerdau Group since 1983. He holds the position of Executive Vice President (since 2001) and he is a member of the Gerdau Executive Committee (since 2007). He is also Executive Vice President and member of Executive Committee of the parent company Metalúrgica Gerdau S.A. Manoel Vitor graduated in Metallurgical Engineering from Federal University of Minas Gerais in 1982, and holds an MBA from the Getúlio Vargas Foundation.

**FRANCISCO DEPPERMAN FORTES** (born in 1963) has worked for the Gerdau Group since 1985. He has been Executive Officer and Executive Vice President of the Gerdau Executive Committee since 2011. He is also Executive Officer and Executive Vice President of the Executive Committee of the parent company Metalúrgica Gerdau S.A. He graduated in Metallurgical Engineering at the Federal University of Rio Grande do Sul UFRGS - in 1985, obtained a master degree in Business also from UFRGS in 2001. In 2008 he concluded the Gerdau Business Program and holds a degree from Stanford Executive Program (2010).

## Edgar Filing: GERDAU S.A. - Form 20-F

**RICARDO GIUZEPPE MASCHERONI** (born in 1961) has worked for the Gerdau Group since 1983. He has been Executive Officer and Executive Vice President of the Gerdau Executive Committee since 2011. He is also Executive Officer and Executive Vice President of the Executive Committee of the parent company Metalúrgica Gerdau S.A. He graduated in Economics at Catholic University of Petrópolis - UCP - RJ, in 1982, with a degree in Marketing from PUC RJ in 1983. Concluded the Gerdau Business Program in 2008.

Find below the summary of the structures of the Board of Directors and of the Statutory Board of Executive Officers:

### Board of Directors

#### Chairman:

Jorge Gerdau Johannpeter

#### Vice Chairmen:

Germano Hugo Gerdau Johannpeter

Klaus Gerdau Johannpeter

Frederico Carlos Gerdau Johannpeter

Table of Contents

Board members:

Andre Bier Gerdau Johannpeter  
Claudio Johannpeter  
Affonso Celso Pastore  
Oscar de Paula Bernardes Neto  
Alfredo Huallem(1)

Statutory Board of Executive Officers

Chief Executive Officer (CEO):  
Andre Bier Gerdau Johannpeter

Chief Operating Officer (COO):  
Claudio Johannpeter

Vice-Presidents:

Manoel Vitor de Mendonça Filho  
Francisco Deppermann Fortes  
Ricardo Giuzeppe Mascheroni

Vice-President, Legal and Compliance Officer:  
Expedito Luz

Vice-President, Chief Financial officer (CFO) and Investor Relations Officer:  
Osvaldo Burgos Schirmer

- 
1. Alfredo Huallem was a member of the Board of Executive Officers until December 31, 2011 and since February 1, 2012, he became a member of the Board of Directors (see item 8.B Significant Changes below).
  2. Paulo Bins de Vasconcellos was a member of the Board of Executive Officers until May 31, 2011(see item 8.B Significant Changes below).
  3. Mário Longhi Filho was a member of the Board of Executive Officers until June 22, 2011 (see item 8.B Significant Changes below).

**Family Relationships**

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. André Bier Johannpeter is Jorge Gerdau Johannpeter's son and Claudio Johannpeter is Klaus Gerdau Johannpeter's son.

**Arrangements**

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election of its officers or directors. There are no pending legal proceedings to which any Company Board Member or Executive Officer is a party against the Company. Apart from statutory severance benefits, none of the Board Members or Executive Officers is entitled to any contractual benefits upon termination of employment.

**B. COMPENSATION**

The employees' compensation system is divided into two portions: a fixed salary and a variable pay linked to performance.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package is tied to semi-annual and annual goals. These goals are measured against standards clearly specified that are intended to support and motivate overachievement of individuals and teams results.

The human resources policy states and recognizes co-workers as being strategic to the business.

The Company conducts evaluations based on several different methodologies, including competence mapping, to track the managerial skills of its executives. Competence mapping aims to identify the degree of alignment of executives with the Company's strategies and business management and to monitor individual development.



Table of Contents

In 2011, Directors and Executive officers from Gerdau were paid a total of R\$ 53.2 million in salaries and variable remuneration. The variable remuneration for executives is based on the overall performance of Gerdau, using as performance indicator, actual EBITDA versus planned EBITDA, on the performance of the unit to which the executive is responsible, and on individual performance. Each of the first two factors influencing 30% and the third 40% in the amount of the variable remuneration for more or less.

Gerdau Group co-sponsor Pension Plans to his subsidiaries, in Brazil, United States and Canada covering the majority of their employees. The plans are Defined Benefit plans (42%) and Defined Contribution (58%).

During 2011, Gerdau's contribution to the Gerdau Plan with respect to the executive officers amounted to R\$ 1.2 thousand. This sum includes only that portion of contributions for executives who do not currently receive retirement benefits from the Company. These benefits are in no way different from those offered to the other employees of the Company.

On April 30th, 2003, Gerdau's shareholders approved a new compensation program for strategic employees in the Company known as the Long Term Incentive Program. This new compensation program foresees the grant of options of the Company's Preferred Shares, on an annual basis, representing 20% of the annual base salary of each executive and, for the Directors and Executive Offices, an additional entrance bonus equivalent to 30% of the annual salary (the latter was eliminated as from April 28, 2005). From 2005 on, in order to match their potential total compensation to market measures, the Board members were granted a number of shares representing 120% of their base salary. This modification on the long term incentive program was approved by the Compensation and Succession Committee in February 2006. In 2007 the Committee on Remuneration and Succession approved the granting of options to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) in number equivalent to 50% of their annual base salaries. This program aims to attract and assure the long-term commitment of executives by allowing them to share in the growth of the Company, thereby enhancing the sense of participation in the business. (See Item 10. Additional Information - B. Memorandum and Articles of Association).

To meet the effort of aligning globally both the compensation programs and the business needs, the Human Resources team supported by the HAY Group Consultancy, expert in compensation related matters, reviewed the Long Term Compensation Program which was submitted to and approved by the Gerdau Compensation and Succession Committee during the meeting held on April 28, 2010.

The purpose of this new Plan is to attract, retain and motivate key employees as well as to stimulate the achievement of long term results by tying significant part of this compensation to a long term financial metric, in this case the ROCE (Return on Capital Employed).

The Chief Executive Officer (CEO), the Chief Operating Officer (COO), Board Members and Director positions and higher will have part of their Long Term Compensation tied to ROCE (Return on Capital Employed) calculated on a yearly basis by comparing the actual ROCE against the one foreseen in the Strategic Plan.

Under this program, the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) are eligible to a grant equivalent to 50% of their annual base salary, the Board Members are eligible to a grant equivalent to 120% of their annual fixed compensation and other participants are eligible to a grant equivalent to 5% to 20% of their annual base salary.

## Edgar Filing: GERDAU S.A. - Form 20-F

The Compensation and Succession Committee approved all stock option grants since the program begun.

The stock option grants distributed to the Directors and Executive Officers are as follows (see Consolidated Financial Statements Note 25.I for a complete summary of the stock option plans):

Grant date:	Dec/03	Dec/04	Dec/04	Dec/05	Dec/06	Dec/07	Dec/08	Dec/09	Dec/10	Dec/11	Accumulated Number of Shares
To be vested from:	Jan/09	Jan/10	Jan/08	Jan/11	Jan/12	Jan/13	Jan/14	Jan/15	Jan/16	Jan/17	
Must be exercised by:	Dec/13	Dec/14	Dec/14	Dec/15	Dec/16	Dec/17	Dec/18	Dec/19	Dec/20	Dec/21	
Exercise price per share:	R\$6.78	R\$10.58	R\$10.58	R\$12.86	R\$17.50	R\$26.19	R\$14.91	R\$29.12	R\$22.61	R\$14.42	
Total Options Granted to Directors and Executive Officers											
	671,283	579,349	277,439	1,144,789	872,571	674,563	1,249,153	1,020,296	666,525	904,840	8,060,808
Exercised Options	54,301	40,598	39,800	18,237				1,337	3,581		157,854
Canceled Options				14,253	11,143	7,743	13,602	14,234	115,158		176,133

Table of Contents

Share figures have been retroactively adjusted for all periods to reflect the bonus issue of one share for each share held in April 2004, the bonus issue of one share for every two shares held in April 2005, the bonus issue of one share for every two shares held in April 2006 and the bonus issue of one share for each share held in June 2008.

**C. BOARD PRACTICES**

In November 2006, Gerdau announced a new phase in its corporate governance, marked by the fourth succession in five generations. This process began in 2000 and has already resulted in important structural changes in the organization, with emphasis on the creation of the Executive Committee in 2002.

The new structure was defined by the scale, complexity and challenges facing Gerdau in its global market operations. The best practices of the world's large companies were also taken into account.

Gerdau has a historical commitment to good corporate governance practices and to strengthening the stock markets, which is why it takes part in Level 1 of the São Paulo Stock Exchange (Bovespa) Differentiated Corporate Governance program (since 2001 in the case of Gerdau S.A. and 2003 for Metalúrgica Gerdau S.A.).

Furthermore, the Group's listed companies also have an information disclosure policy that defines the criteria guiding investor relations, including the announcement of relevant acts and facts. The aim is to maintain a fast and efficient flow of data while respecting rules of secrecy and confidentiality. This policy covers controlling shareholders, officers and managers, members of the Board of Directors and Board of Auditors and any organs or persons with technical or consultative functions which, as a result of their responsibilities, function or position, have access to information concerning the Group.

The structure is composed of three levels and has maintained the existing governing bodies – the Board of Directors, the Executive Committee and Business Operations Committee.

**Board of Directors:** The Board of Directors is responsible for determining the broad direction of the Group's business. The Board may have up to eleven members; currently there are two independent Board members. The Board has three Committees: Corporate Governance; Strategy; and, Compensation and Succession. According to the Ordinary General Meeting of Shareholders, held on April 26, 2011, the members of the Board of Directors are:

***Chairman***

Jorge Gerdau Johannpeter (1), (2)

***Vice Chairmen***

Germano Hugo Gerdau Johannpeter (2)

Klaus Gerdau Johannpeter (2)

Frederico Carlos Gerdau Johannpeter (1), (2), (3)

***Member***

André Bier Gerdau Johannpeter (2)

Claudio Johannpeter (2)

Alfredo Huallem (2)

***Independent Members***

Affonso Celso Pastore (3)

Oscar de Paula Bernardes Neto (1), (3)

***Secretary-General***

Exedito Luz

Alfredo Huallem is a member of the Board of Directors since February 1, 2012 (see item 8.B Significant Changes below).

---

(1) Member of the Corporate Governance Committee

(2) Member of the Strategy Committee

(3) Member of the Compensation and Succession Committee

**Gerdau Executive Committee:** The Gerdau Executive Committee is responsible for coordinating the activities of the executive officers and managing the Company's business, the purpose being to build on the Company's relationship with the market and accompany best corporate governance practices. This structure provides an administrative link between the Board of Directors and the Company's business operations. Its activities are divided into business operations (BOs), defined by product line and/or geographical location: BO - Brazil, BO - Specialty Steel Products, BO - North America

Table of Contents

and BO - Latin America. The Gerdau Executive Committee is also responsible for the main functional processes that operate vertically throughout the Group, such as finance, accounting, human resources and planning. Committee's members work together to encourage a greater synergy among operations, and individually with a focus on the management of each business and functional process in order to maximize results.

***President, Chief Executive Officer***

André Bier Gerdau Johannpeter

***Chief Operating Officer***

Claudio Johannpeter

***Vice Presidents***

Oswaldo Burgos Schirmer

Manoel Vitor de Mendonça Filho

Expedito Luz

Francisco Deppermann Fortes

Ricardo Giuseppe Mascheroni

Francisco Deppermann Fortes and Ricardo Giuseppe Mascheroni are members of the Gerdau Executive Committee since May 03, 2011.

Paulo Fernando Bins de Vasconcellos was an Officer (Vice President) and a member of the Gerdau Executive Committee until May 31, 2011 (see item 8.B Significant Changes below).

Mário Longhi Filho was an Officer (Vice President) and member of the Gerdau Executive Committee until June 22, 2011 (see item 8.B Significant Changes below).

Since December 31, 2011, Alfredo Huallem is no longer an Officer of the Company nor a member of the Gerdau Executive Committee, but he has become a member of the Board of Directors.

***The Compensation and Succession Committee is responsible for:***

**General duties:** expressing an opinion on the Company's organizational structure, suggesting policies for the selection, retention and succession of executive officers and recommending the applicable measures to the Board of Directors; expressing an opinion on short- and long-term variable compensation plans (including stock option plans), benefits and pensions for executive officers; expressing an opinion on general pay increases, defining the overall amounts for variable compensation and the granting of stock options; reviewing and monitoring the program for development of the CEO, COO, and of the other members of the Executive Committee, suggesting strategies for their professional development;

**Regarding the human resources strategies:** reviewing and monitoring the human resources strategies in accordance with the Company's vision, mission and values, in accordance with the Executive Committee's proposal, and submitting them to the approval of the Board of Directors.

**Regarding benefit plans:** expressing an opinion on the investment and risk allocation policies set forth for each benefit plan submitted by the Executive Committee, monitoring the choice of investments in view of the beneficiaries' age bracket; expressing an opinion on the benefit policies submitted by the Executive Committee; and expressing an opinion on the performance of investment and benefit plans managers.

**Regarding the evaluation and compensation of the Executive Committee's members:** choosing, among the Company's objectives and targets, those that are relevant for determining the compensation of the Executive Committee's members, taking into account the processes under its responsibility; reviewing the CEO's evaluation of the performance of the other Executive Committee's members, bearing in mind the above-mentioned objectives and targets; and evaluating and endorsing the CEO's recommendations with regard to the compensation of the Executive Committee's members, proposing them to the Board of Directors.

**Other Committees:** In order to provide support to the Executive Committee several committees were created and are responsible for advising in specific matters. Among the Executive Committee's support committees should be mentioned the Risk Committee, the Finance Committee and the Human Resources Committee as the most important bodies. The Gerdau Business System Committee is also a support committee to the Gerdau Executive Committee and plays a major role in the Company's organization, as described below.

**Gerdau Business System Committee:** The Gerdau Business System Committee (GBS) is formed by executives who contribute to the achievement of growing levels of operating performance of the Company. The GBS promotes the evaluation of the Company's current situation and growth opportunities, and defines its long-term business focus. The GBS provides support for all processes, aiming at developing best management practices and encouraging the exchange of know-how among the Company's plants and offices.

Table of Contents

**Processes:** The Functional Processes consist of Operational Processes and Support Processes. Operational Processes are those directly connected with operating the business, such as Marketing and Sales, Industrial Processes, Purchasing, Logistics and Scrap Purchasing. Support Processes are those which provide backup in running the business as a whole: Strategic Planning Corporate and Operations, Corporate Communications and Community Relations, Human Resources and Organizational Development, Legal, Compliance, Finance and Investor Relations, Holdings, Accounting and Auditing, Management Technology and Information Technology.

All members of the Board of Directors and the Gerdau Executive Committee are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the Ordinary General Meeting of Shareholders while members of the Gerdau Executive Committee are elected at meetings of the Board of Directors.

**Board of Auditors**

Under Brazilian Corporate Law, the board of auditors ( Conselho Fiscal ) is a shareholder nominated audit board and an independent corporate body of the board of directors, the management and the company's external auditors. The board of auditors has not typically been equivalent to or comparable with a U.S. audit committee; its primary responsibility has been to monitor management's activities, review the financial statements, and report its findings to the shareholders. Pursuant to an exemption under Section 10A-3 of the SEC rules concerning the audit committees of listed companies, a foreign private issuer (such as the Company) need not have a separate audit committee composed of independent members if it has a Board of Auditors established and selected pursuant to its home country's legal or listing provisions expressly requiring or permitting such a board and if such a board meets certain requirements. Pursuant to this exemption, a board of auditors can exercise the required duties and responsibilities of an U.S. audit committee to the extent permissible under Brazilian Corporate Law. To comply with the SEC rules, the Board of Auditors must meet the following standards: it must be separate from the full board of directors, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In order to qualify for exemption, the Board of Auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);
- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- have the authority to engage independent counsel and other advisors as deemed necessary, to carry out its duties; and
- receive appropriate funding from the Company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, the Company decided to modify its Board of Auditors to comply with the exemption requirements. Accordingly, the Ordinary General Meeting of Shareholders held on April 28, 2005, amended the Company's by-laws to modify the duties of the Board of Auditors and the Board of Directors, and, on the same date approved the delegation of certain additional responsibilities to the Board of Auditors. The Board of Auditors operates pursuant to a charter ( regimento interno ) that contemplates the activities described above to the extent permitted by Brazilian Law and is compliant with the requirements of the Sarbanes-Oxley Act, the pertinent regulations, and the requirements of the New York Stock Exchange and the Conselho Fiscal .

## Edgar Filing: GERDAU S.A. - Form 20-F

Because Brazilian Corporate Law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide the board or the board of auditors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the board of auditors cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the board of auditors may only make recommendations to the board of directors with respect to the appointment, retention and compensation of the external auditors. Likewise, the board of auditors may only make recommendations to management and the board with regard to the resolution of disagreements between management and the external auditors. This limited scope of authority is a key difference between the board of auditors and the customary authority of an audit committee as a full committee of the board of directors.

Under Brazilian Corporate Law, members of the board of auditors of a company are not allowed to be members of the board of directors, hold executive office, or be employed in any other position within that of the company or its



Table of Contents

subsidiaries or controlled companies. In addition a member of the board of auditors cannot be spouse or relative of any member of the company's management. In addition, the Brazilian Corporate Law requires that members of the board of auditors receive a remuneration at least 10% of the average amount paid to each executive officer. The Brazilian Corporate Law requires that a board of auditors be composed of a minimum of three and a maximum of five members and their respective alternates.

As part of the adaptation of its Board of Auditors to the regulations, the Company has installed a permanent (standing) Board of Auditors currently composed of three members and their alternates who are elected at the Ordinary General Meeting of Shareholders with term of office to run until the next Ordinary General Meeting of Shareholders following their election, reelection being permitted. Under Brazilian Corporate Law, holders of Preferred Shares have the right to elect through a separate vote, one member of the board of auditors to represent their interests. Likewise, minority groups of shareholders with voting shares also have the right to elect one member of the board of auditors through a separate vote. However, irrespective of circumstances, the common shareholders have the right to elect the majority of the members of the board of auditors. Set forth below are the names, ages and positions of the members of the Company's Board of Auditors and their respective alternates, since April 26, 2011.

<b>Name</b>	<b>Birthday</b>	<b>Member Position</b>	<b>Year First Elected</b>
Bolívar Charneski(1)	08/22/1950	Effective	2011
Carlos Roberto Schröder	02/19/1940	Effective	2005
Maria das Graças Conceição Machado Costa	05/02/1948	Effective	2009
Carlos Roberto Schröder (2)	02/19/1940	Alternate	2005
Tranquilo Paravizi (3)	05/07/1934	Alternate	2011
Kurt Lowenhaupt	09/29/1950	Alternate	2010

(1) Egon Handel was replaced by Bolívar Charneski as effective member and as audit committee financial expert in the shareholders meeting held on April 26, 2011.

(2) Eduardo Grande Bittencourt was replaced by Carlos Roberto Schroder as alternate member for the financial expert .

(3) Domingos Matias Urroz Lopes was replaced by Tranquilo Paravizi as alternate chosen by the preferred shareholders in the shareholders meeting held on April 26, 2011.

The Board has determined that Bolívar Charneski is an audit committee financial expert within the meaning of the rules adopted by the SEC concerning disclosure of financial experts. Each member of the Board of Auditors has acquired significant financial experience and exposure to accounting and financial issues. Mr. Charneski holds a bachelor degree in Accounting (1974) and has 40 years of experience as auditor and consultant. Since 1988, he has been the found and partner of Charneski Assessoria e Consultoria Ltda., formerly an independent auditing and consulting firm that was restructured in 2010, by strategic decision of its partners, in order to continue providing only consulting services. He had also worked to Price Waterhouse from 1971 to 1988 and had been named Acting Partner in the latter years. Currently Mr Charneski holds the position of member of the Board of Auditors of Gerdau S.A, as well as of Grandene S.A. He was a member of the Board of Auditors of Forja Taurus S.A from 1998 to 2007 and of Plascar Participações Industriais S.A in 2009.

Mr. Schröder holds a bachelor degree in Accounting and worked as Financial Officer and Manufacturing Officer for large companies in Brazil.

Mrs. Costa holds a degree in Engineering and a MBA in Corporate Governance from the University of São Paulo (USP), and worked as manager and regional superintendent of Banco do Brasil S.A.

**D. EMPLOYEES**

The following chart presents information on the geographical distribution of Gerdau's employees:

<b>Direct</b>	<b>Brazil</b>	<b>Overseas</b>	<b>Total</b>
2009	20,601	17,560	38,161
2010	22,577	18,713	41,290
2011	23,516	19,304	42,820

<b>Outsourced*</b>	<b>Brazil</b>	<b>Overseas</b>	<b>Total</b>
2009	6,796	3,010	9,806
2010	7,676	3,565	11,241
2011	7,734	3,799	11,186

Table of Contents

\* *Outsourced correspond to employees of third-party service providers of Gerdau which provide, as employees of those providers, services directly to Gerdau in areas that are not the core business of Gerdau .*

As of December 31, 2011, the Company employed 42,820 at its industrial units excluding joint ventures. 55% of this total is based in Brazil and the remainder in South America, North America and Europe, which have 6,009, 10,463 and 2,832 employees, respectively.

As labor unions in Brazil and other Countries in Latin America and Europe are organized on a regional basis, the Company has no nationwide agreements with its employees. Gerdau believes that its employee pay and benefits structure is comparable to the general market. 36% of the employees of Gerdau in North America are unionized.

Gerdau maintains good working conditions at its mills and consequently has what it believes to be a comparatively low employee turnover rate.

Gerdau has been and continues to be proactive in establishing and maintaining a climate of good employee relations. Ongoing initiatives include organizational development skills training, team-building programs, opportunities for participation in employee involvement teams, and an open book system of management. Gerdau believes that a high level of employee involvement is a key factor in the success of its operations. Compensation programs are designed to meet employee's financial interests with those of Gerdau shareholders.

**E. STOCK OWNERSHIP**

The following table shows the individual holdings of shares in preferred and common stock in Gerdau S.A. for each director and executive officer as of February 29, 2012.

Shareholder	Common Shares		Preferred Shares	
	(with voting rights)	%	(with restricted voting rights)	%
Jorge Gerdau Johannpeter	100	0.00	121,147	0.01
Frederico C. Gerdau Johannpeter	100	0.00	875,925	0.08
Germano H. Gerdau Johannpeter	100	0.00	9,258,411	0.81
Klaus Gerdau Johannpeter	100	0.00	100	0.00
Affonso Celso Pastore		0.00	6,238	0.00
Oscar de Paula Bernardes Neto		0.00	80,488	0.01
Manoel Vitor de Mendonça Filho		0.00	76,761	0.01
André Bier Johannpeter	39,495	0.01	304,506	0.03
Claudio Johannpeter	38,435	0.01	219,464	0.02
Oswaldo B. Schirmer		0.00		0.00
Expedito Luz		0.00	12,780	0.00
Alfredo Huallem		0.00	350	0.00
Francisco Deppermann Fortes		0.00	15,464	0.00
Ricardo Giuzeppe Mascheroni		0.00	14,336	0.00

<b>TOTAL</b>	<b>78,330</b>	<b>0.01</b>	<b>10,986,970</b>	<b>0.96</b>
--------------	---------------	-------------	-------------------	-------------

The Company has different employee stock option plans for each of its subsidiaries. See NOTE 24 Long-Term Incentive Plans in its consolidated financial statements included herein for further details.

The following table shows the vesting options (all Gerdau S.A. preferred shares) to each director and executive officer.

Table of Contents

Exercise Price (R\$)	6.78	10.58	10.58	12.86	17.50	26.19	14.91	29.12	22.61	14.42
Grant Date	dec/03	dec/04	dec/04	dec/05	dec/06	dec/07	dec/08	dec/09	dec/10	dec/11
Vesting Date	jan/09	jan/10	jan/08	jan/11	jan/12	jan/13	jan/14	jan/15	jan/16	jan/17
Expiration Date	dec/13	dec/14	dec/14	dec/15	dec/16	dec/17	dec/18	dec/19	dec/20	dec/21
Affonso Celso Pastore	17,640	15,728		14,253	11,143	7,743	13,602	11,116	12,738	20,970
Frederico C G Johannpeter	132,301	114,395	57,198	258,383	189,874	131,995	245,771	197,299	108,271	178,252
Germano H G Johannpeter	132,301	114,395	57,198	258,383	189,874	131,995	245,771	197,299	63,689	104,854
Jorge Gerdau Johannpeter	132,301	114,395	57,198	258,383	189,874	131,995	245,771	197,299	127,377	210,208
Klaus Gerdau Johannpeter	132,301	114,395	57,198	258,383	189,874	131,995	245,771	197,299	63,689	104,854
Oscar de P Bernardes Neto	17,640	15,728		14,253	11,143	7,743	13,602	11,116	12,738	20,970
Alfredo Huallem	15,454	9,904		8,977	6,981	6,453	12,616	11,190	11,384	18,724
Andre Bier Johannpeter					12,480	28,541	69,316	55,634	49,680	81,796
Claudio Johannpeter	18,522	17,694	8,847	16,012	12,480	27,300	66,090	53,046	47,369	77,987
Expedito Luz					7,726	5,369	14,822	11,897	10,624	17,492
Francisco Fortes		4,423		4,403	3,863	9,556	7,952	7,054	6,957	14,424
Manoel Vitor de M Filho					6,981	17,869	12,200	20,094	9,544	17,309
Osvaldo Burgos Schirmer	18,522	17,694		16,012	12,480	8,673	17,297	13,883	12,397	20,412
Ricardo Mascheroni				5,257	4,175	10,920	8,318	7,677	8,348	16,588
Paulo F B de Vasconcellos					12,480	8,673	16,652	8,910	2,984	

Paulo Fernando Bins de Vasconcellos was an Officer (Vice President) and a member of the Gerdau Executive Committee until May 31, 2011 (see item 8.B Significant Changes below).

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

As of February 29, 2012, Gerdau S.A. had 573,627,483 common shares and 1,146,031,245 non-voting preferred shares outstanding (excluding treasury stock). Of the two classes of stock traded in the market, only the common stock carries voting rights. Under the terms of the Company's bylaws, however, specific rights are assured to the non-voting preferred stock. See the bylaws of Gerdau S.A. attached to this Annual Report.

The table below presents certain information as of February 29, 2012, regarding (i) any person known to the Company as the owner of more than 5% of Gerdau S.A.'s outstanding common stock, (ii) any person known to the Company as the owner of more than 5% of Gerdau S.A.'s outstanding preferred stock, and (iii) the total amount of the common and preferred stock owned by the members of the board of directors and executive officers of the Gerdau S.A. as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	449,712,654	78.40	252,841,484	22.06
BNDES Participações S.A. BNDESPAR *	37,917,222	6.61	21,218,074	1.85
Members of the board of directors and executive officers as a group (14 members)	78,330	0.01	10,986,970	0.96



Table of Contents

---

\* BNDES Participações S.A. BNDESPAR has a conversion option of 131,280 debentures issued by Metalúrgica Gerdau convertible into 1 to 200 preferred shares of Gerdau S.A. with maturity of 5 years from June, 2008 with the possibility to be converted any time during this period. Additionally BNDES Participação S.A. BNDESPAR has a put option of 34,309,522 common shares of Gerdau S.A.

Metalúrgica Gerdau S.A. is a holding company that directly and indirectly controls all Gerdau companies in Brazil and abroad. Metalúrgica Gerdau and its subsidiaries hold 78.40% of the voting capital stock of Gerdau S.A. and thus have the ability to control the Company's Board of Directors as well as its management and operations.

On December 31, 2011 there were 303,709,632 ADR outstanding, representing 26.5% of Gerdau S.A. preferred shares and the number of record holders were 37.

**B. RELATED-PARTY TRANSACTIONS**

The Company's transactions with related parties consist of (i) loans, (ii) commercial operations, (iii) the administration of the Company's investment funds by a related party bank and (iv) the payment of guarantees to some controlling companies. See Note 18 Related Party Transactions for further information.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates through loan contracts, which are repaid under conditions similar to those prevailing in the open market. Loan agreements between Brazilian companies are adjusted by the monthly variation in the CDI (interbank deposit rate). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the terms and conditions established in the contract between the parties and under prevailing market conditions. The commercial operations include payments relating to loan guarantees.

(iii) The Company holds marketable securities in investment funds managed by a related-party bank. These marketable securities comprise time deposits and debentures issued by major Brazilian banks and treasury bills issued by the Brazilian government.

(iv) The Company pays a fee of 0.95% per year for debt guaranteed by a controlling related-party company.

The Company's transactions with related parties are presented below:





Table of Contents

INTRA-GROUP AGREEMENTS			Original Amount			Outstanding Amount		
Item	Purpose of the Agreement	Relationship with issuer	In thousands of R\$	Date	Maturity or Deadline	Termination or extinction conditions	December 31, 2011	Largest amount during the period covered
1	Guarantee for company Dona Francisca Energética in a R\$29,198 thousand loan granted by the IDB in 2001. No remuneration.	Associate	29,198	05/15/01	06/2013	Settlement of the agreement	2,277	7,243
2	Guarantee for company Dona Francisca Energética in a R\$72,156 thousand loan granted by the BNDES in 2003. No remuneration.	Associate	72,156	07/15/03	12/2014	Settlement of the agreement	10,919	22,810
3	Guarantee for company Dona Francisca Energética in a R\$37,448 thousand loan granted by Banco Bradesco in 2003. No remuneration.	Associate	37,448	06/16/03	12/2014	Settlement of the agreement	6,535	13,800
4	Guarantee for company Dona Francisca Energética in a swap transaction with Banco Votorantin. No remuneration.	Associate	13,218	04/17/03	11/2013	Settlement of the agreement	4,260	8,665
5	Indac Ind. e Com. S.A. stands guarantor for our Company in all loans with the BNDES, and debentures of the 7th, 8th, 9th, and 11th issue, with no restrictions on amounts and date. Remuneration of 0.95% p.a. on the amount payable (R\$10,130 individual, and R\$ 21,324 consolidated).	Parent Company			Undetermined	Settlement of the agreement	1,183,942	1,594,101
6	Guarantee for Gerdau Açominas S.A. in financings and the opening of a letter of credit for expansion projects and the acquisition of equipment in an amount of up to US\$ 1,178,558 thousand. No remuneration.	Subsidiary	2,042,893	07/26/05	11/2011	Settlement of the agreement	1,458,268	2,007,732
7	Co-guarantee for Gerdau Holdings Inc. in the 10-year Bond issued in November/2009 in an amount of up to US\$ 1,250,000,000.00. No remuneration.	Subsidiary	2,188,125	11/31/09	01/2020	Settlement of the agreement	2,344,750	2,344,750
8	The Company is the guarantor of subsidiary Gerdau Açominas S.A. in a financing agreement with Santander Bank in the amount of US\$ 40.5 million.	Subsidiary	67,773	01/31/2011	01/2016	Settlement of the agreement	75,970	75,970
9	Guarantee for Siderúrgica Del Peru in a loan granted by banks Banco de Crédito Del Peru (BCP) and Scotiabank in an amount of up to US\$150,000,000.00. No remuneration.	Subsidiary	294,795	05/24/07	04/2014	Settlement of the agreement	15	356,760
10	Co-guarantee for GTL Trade Finance Inc. in the 10-year Bond issued in October/2007 in an amount of up to US\$ 1,500,000,000.00. No remuneration.	Subsidiary	1,744,000	10/22/07	10/2017	Settlement of the agreement	2,813,700	3,567,600
11	Guarantee for Gerdau Aços Especiais S.A. in an electricity purchase and sale agreement with Duke Energy International, Geração Paranapanema S.A., in the present value of up to R\$ 8.4 million.	Subsidiary	1,664	09/23/08	09/2016	Settlement of the agreement	8,354	1,232,017
12	Guarantee for Siderúrgica del Peru S.A. in an uncommitted facility of up to US\$ 70,000,000.00 with bank Standard Chartered.	Subsidiary	148,071	10/30/08	Undetermined	Settlement of the agreement	131,306	166,488

Edgar Filing: GERDAU S.A. - Form 20-F

13	Guarantee for Diaco S.A. in a financing granted by Banco BBVA Colômbia of up to COP 61,500,000,000.00, equivalent to US\$35,000,000.00 on the agreement s date. No remuneration.	Subsidiary	55,832	07/16/08	07/2013	Settlement of the agreement	65,653	83,244
14	Guarantee for Industrias Nacionales C. por A. for the financing of up to US\$ 25,000,000.00 granted by Banco BNP Paribas for the funding of construction works and acquisition of supplementary equipment.	Associate	43,300	12/07/09	07/2015	Settlement of the agreement	46,895	46,870

Table of Contents

Item	Purpose of the Agreement	Relationship with issuer	Original Amount			Termination or extinction conditions	Outstanding Amount	
			In thousands of R\$	Date	Maturity or Deadline		December 31, 2011	Largest amount during the period covered
15	Guarantee for Industrias Nacionales C. por A. for the financing of up to US\$ 34,935,000.00 granted by Banco BNP Paribas for the funding of the acquisition of 85% of the principal equipment.	Associate	59,229	05/28/10	01/2019	Settlement of the agreement	61,672	61,672
16	Co-guarantee for Gerdau Trade Inc. in the 10-year Bond issued in September/2010 in an amount of up to US\$1,250,000,000.00.	Subsidiary	2,117,750	01/10/10	09/2020	Settlement of the agreement	2,344,750	2,344,750
17	Guarantee for Gerdau Corsa SAPI de C.V. in a working capital credit facility with Banco BBVA for the payment of expenses with suppliers in an amount of up to US\$44,500,000.00.	Associate	75,392	08/27/10	10/2012	Settlement of the agreement	83,473	83,473
18	Current account (liability balance) with Gerdau Aços Longos S.A. Pays the monthly variation of the CDI.	Subsidiary		07/31/05	Undetermined	Not applicable	5,005	20,429
19	Current account (asset balance) with Gerdau Ameristeel Corp. Pays the contracted charges plus exchange variance.	Subsidiary		12/31/10	Undetermined	Not applicable	5,064	5,074
20	Current account (liability balance) with Gerdau Trade Inc. Pays the contracted charges plus exchange variance.	Subsidiary		09/17/10	Undetermined	Not applicable	2,341,516	2,341,516
21	Gerdau S.A. usually trades its own debentures on behalf of Metalúrgica Gerdau S.A. and other direct and indirect controlling shareholders, with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation. In 2011, repurchase transactions amounted to R\$ 32,165, while sales totaled R\$ 17,927.	Direct and indirect controlling shareholders			Undetermined	Maturity	490,931	490,931
22	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Aços Especiais S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation. In 2011, repurchase transactions amounted to R\$ 355,654, while sales totaled R\$ 385,865.	Subsidiary			Undetermined	Maturity	83,797	107,123
23	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Comercial de Aços S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation. In 2011, repurchase transactions amounted to R\$ 827,586, while sales totaled R\$ 941,726.	Subsidiary			Undetermined	Maturity	121,121	180,111

Edgar Filing: GERDAU S.A. - Form 20-F

24	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Aços Longos S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation. In 2011, repurchase transactions amounted to R\$ 2,797,581, while sales totaled R\$ 2,601,272.	Subsidiary			Undetermined	Maturity	234,088	615,926
25	Gerdau S.A. usually trades its own debentures on behalf of Gerdau Açominas S.A., with that company itself acting as obligor. These transactions are carried out at the present unit price of the paper, which pays the CDI variation. In 2011, repurchase transactions amounted to R\$ 1,221,572, while sales totaled R\$ 1,285,735.	Subsidiary			Undetermined	Maturity	72,719	207,691
26	Gerdau S.A. has accounts receivable derived from purchases from and sales to subsidiaries (Gerdau Comercial de Aços S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Açominas S.A., Gerdau AZA S.A., Diaco S.A., Gerdau Açominas Overseas Ltd., Gerdau Laisa S.A., Empresa Siderúrgica Del Peru S.A.A., Siderurgica Tultitlán, S.A. DE C.V., Sidenor Villares Rolling Mill Rolls SL and Villares Corporation of America). Purchases in the period totaled R\$ 117,265, and sales amounted to R\$ 199,363.	Subsidiaries			Undetermined	Maturity	24,532	63,584
27	Current account (active intragroup loan) with Fundação Gerdau and others. Pays the monthly variation of the CDI.	Associate and others			Undetermined	Maturity	82,048	82,048
28	Current account (active intragroup loan) with Metalúrgica Gerdau S.A. Pays the monthly variation of the CDI.	Parent Company			Undetermined	Maturity	29,901	29,901
29	The Company is the guarantor of subsidiary Empresa Siderúrgica Del Peru S.A.A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 80 million	Subsidiary	148,352	08/17/11	03/2014	Settlement of the agreement	150,064	150,064
30	The Company is the guarantor of the associate Industrias Nacionales C. por A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 60.9 million.	Associate	112,852	08/17/11	03/2014	Settlement of the agreement	114,154	114,154
31	The Company is the guarantor of subsidiary Diaco S.A., co-borrower of a global credit line for financing of working capital in the amount of US\$ 10 million.	Subsidiary	18,544	08/17/11	09/2012	Settlement of the agreement	18,758	18,758
32	The Company is the guarantor of subsidiary Diaco S.A., co-borrower of a global credit line for financing of working capital in the amount of US\$ 35 million.	Subsidiary	59,098	08/17/11	04/2013	Settlement of the agreement	65,653	65,653
33	The Company is the guarantor of subsidiary Diaco S.A., co-borrower	Subsidiary	112,548	08/17/11	06/2013	Settlement of the agreement	112,548	112,548

	of a global credit line for financing of working capital in the amount of US\$ 60 million.							
34	The Company is the guarantor of subsidiary Aceros Corsa S.A. de C.V., co-borrower of a global credit line for financing of working capital in the amount of US\$ 73 million.	Associate	123,293	08/17/11	08/2014	Settlement of the agreement	136,970	136,970
35	The Company is the guarantor of subsidiary Siderúrgica Tultitlán S.A. de C.V., co-borrower of a global credit line for financing of working capital in the amount of US\$ 10.9 million.	Subsidiary	20,434	08/17/11	06/2014	Settlement of the agreement	20,434	20,434

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

Table of Contents**ITEM 8. FINANCIAL INFORMATION****A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

The Company's financial statements are included in Item 18.

**Legal Proceedings****General**

Like other Brazilian companies, Gerdau and its subsidiaries are party to proceedings with respect to tax, labor and civil matters, most of them arising in the regular course of business. Based on advice from legal counsel, management believes that the reserve for provisions is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant effect on its consolidated financial position of December 31, 2011.

The most significant legal and administrative disputes are detailed below. The amount disclosed for each dispute is as of December 31, unless otherwise stated. For further information on the reserve for contingencies, see Note 18 to the consolidated financial statements.

The following table summarizes the balances of provisions recorded for tax, civil and labor liabilities and related judicial deposits as of December 31, 2011, 2010 and 2009 (in thousands of reais):

**Claims**

	Reserve for Contingencies			Judicial Deposits		
	2011	2010	2009	2011	2010	2009
Tax	672,652	472,879	295,650	666,681	458,458	297,332
Labor	217,696	153,752	141,507	37,829	31,676	26,167
Other	17,370	12,470	10,014	8,970	3,413	1,179

**Tax Provisions**

## Edgar Filing: GERDAU S.A. - Form 20-F

Part of the provisions correspond to tax matters. The most significant provision of contingencies is related to:

- R\$ 20 million related to Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*), the majority of which is related to credit rights involving the Finance Secretariat and the State Courts.
- R\$ 21 million in Contributions allegedly due to the Social Security authorities, which are being challenged in tax foreclosure proceedings and suits for annulment pending before the Federal Courts.
- R\$ 37 million related to the Emergency Capacity Charge ( *Encargo de Capacidade Emergencial - ECE*), as well as R\$ 24 million related to the Extraordinary Tariff Recomposition ( *Recomposição Tarifária Extraordinária - RTE*), which are charges included in the electric energy bills. The Supreme Court has upheld the constitutionality of the ECE, and for this reason, once the lawsuits are terminated, the reserve for contingency, will be released, as the amount in dispute, covered by deposits in court, will be fully paid. As to the RTE, the Company understands the charge as of a tax nature and, as such, incompatible with the National Tax System. For this reason the constitutionality of this charge is being challenged in court. The lawsuits are outstanding before the First and Second Instances of the Federal Justice. The Company has made a full deposit in court for the amount of the disputed charge.
- R\$ 70 million related to discussions on Social Contribution Tax on Profits ( *Contribuição Social sobre o Lucro - CSLL* ), mostly concerning the constitutionality and basis of calculation of the contribution.
- R\$ 485 million related to (i) compensation of Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) credits, (ii) taxation of Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) and Social Security Financing Contribution ( *Contribuição para o Financiamento da Seguridade Social - COFINS*) over income in excess of sales, and (iii) exclusion of the Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) from the basis of

Table of Contents

calculation of the Contribution to the Social Integration Plan ( *Contribuição ao Programa de Integração Social - PIS*) and Social Security Financing Contribution ( *Contribuição para o Financiamento da Seguridade Social - COFINS*). In regards to proceedings explained in (ii) and (iii), the Company makes full deposit in courts.

**There are other contingent tax liabilities, for which the probability of losses are not probable and, therefore, are not recognized in the provision for contingencies. These claims are comprised by:**

- The Company is a defendant in debt foreclosures filed by the state of Minas Gerais to demand Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) credits arising mainly from the sales of products to commercial exporters. The total amount of the lawsuits is R\$ 60 million. The Company did not set aside a reserve for contingencies, since products for export are exempted from Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) and no tax is payable.
- The Company and its subsidiary, Gerdau Aços Longos S.A., are defendants in tax foreclosures, which are claiming Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) credits on the export of semi-finished manufactured products. The amount involved is R\$ 80 million. Gerdau has not set aside a reserve for contingency for the lawsuits, as the products do not fit in the definition of semi-finished manufactured products as defined by federal complementary law and, therefore, are not subject to Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*).
- The Company and its subsidiary, Gerdau Aços Longos S.A., are part in other Tax on Circulation of Goods and Services ( *Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R\$ 84 million. No reserve for contingency was set aside for these claims, as the probability of loss is not probable.
- The Company and its subsidiaries, Gerdau Açominas S.A. and Gerdau Aços Longos S.A., are part in discussions related to other taxes for which no reserve for contingency was established, as the probability of loss is less likely than not. The total amount involved is R\$ 138 million.
- The Company and its subsidiaries, Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are part in legal proceedings discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits ( *Contribuição Social sobre o Lucro - CSLL*) over profits generated abroad, in the amount of R\$ 1.235 million. The Company has not made a reserve for contingency, as its legal consultants consider the probability of loss as possible but not probable.
- The Company subsidiaries, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A. and Gerdau Açominas S.A., have administratively challenged the disallowance of the deductibility of a premium generated through a corporate reorganization in 2005, in accordance with articles 7 and 8 of Law no. 9532/97. The premium was deducted from the tax bases of the income tax and social contribution on profits in the 2005-2010 period. The total updated amount under discussion is R\$ 2,664 million. No reserve for contingency was established, since the Company believes, based on the opinion of its legal advisers, that the likelihood of an adverse decision is merely possible.

**Labor Provisions**



The Company is also defending labor proceedings, for which there is a provision as of December 31, 2011 of R\$ 218 million. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, hazardous and risk additional, among others. The balance in judicial deposits relate to labor provisions as at December 31, 2011, totaling R\$ 38 million.

#### **Other Provisions**

The Company is also defending civil proceedings, other provisions arising from the normal course of its operations, which provisions for these claims amount to R\$ 17.0 million. Judicial deposits related to these provisions, at December 31, 2011, amount to R\$ 9 million. Other contingent liabilities with remote or possible chances of loss, involving uncertainties as to their occurrence, and therefore, not included in the provision for contingencies, are comprised of:

#### ***Antitrust Proceedings***

Antitrust process involving Gerdau S.A. related to the representation of two civil construction syndicates in the state of São Paulo that alleged that Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law

Table of Contents

( Secretaria de Direito Econômico - SDE) and based on public hearings, the SDE is of the opinion that a cartel existed. The process was sent to the Administrative Council for Economic Defense ( Conselho Administrativo de Defesa Econômica - CADE), for judgment.

CADE judgment was put on hold by an injunction obtained by Gerdau S.A., which aimed at annulling the administrative process, due to formal irregularities. This injunction was cancelled by appeals made by CADE and the Federal Government, and CADE proceeded with the judgment. On September 23, 2005, CADE issued a rule condemning the Company and the other long steel producers, determining a fine of 7% of gross revenues less excise taxes of each company, based on the year before the commencement of the process, due to cartel practices. The Company has appealed from this decision, and the appeal is pending of judgment.

The Company has proposed a judicial proceeding aiming to cancel the administrative process due to the above mentioned formal irregularities. If the Company is successful in this proceeding, the CADE decision can be annulled in the future.

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August, 30, 2006 to suspend the effect of the CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 (R\$ 346 million). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after it was contested by CADE.

Prior to the CADE decision, the Federal Public Ministry of Minas Gerais ( Ministério Público Federal de Minas Gerais ) had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the Company of involvement in activities that breach antitrust laws. The Company presented its defense on July 22, 2005.

Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available that the administrative process until now includes many irregularities, some of which are impossible to resolve. The Company believes it has not committed any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

*Insurance Dispute*

A civil lawsuit was filed by Sul América Seguradora on August 4, 2003 against Gerdau Açominas S.A. and Westdeutsche Landesbank Girozentrale for the payment of approximately R\$ 34.4 million, which were deposited in court to settle an insurance claim made by Gerdau Açominas. In its defense, Gerdau Açominas asked for the payment of the unpaid balance at the time, corresponding to approximately R\$ 311.5 million\*, minus the amount received (approximately R\$ 37.5 million\*) as advance during the regulation process (to assess the amount due) and the amount paid in court.

The lawsuit is the result of an accident at the blast furnace regenerators that occurred on February 23, 2002, which caused loss of production, material damages and loss of profits. Gerdau Açominas initially asked for indemnification amounting to approximately R\$ 160.7 million\*, based

## Edgar Filing: GERDAU S.A. - Form 20-F

on costs incurred in part of the period in which the equipment was out of service and costs incurred for temporary recovery thereof. During the regulation process (to assess the amount due), Gerdau Açominas received an advance of approximately R\$ 37.5 million\*. At the end of the regulation process, the insurance company ascertained that indemnification amounted to only R\$ 59.3 million\* (against which the advance of approximately R\$ 37.5\* million would be set-off) and conditioned payment of the balance (nearly R\$ 21.6 million\*) to a general release with respect to the accident, which was refused by Gerdau Açominas.

In view of the aforementioned events, Gerdau Açominas filed a suit to collect the undisputed amount. Concomitantly, Sul América Seguradora filed a suit against Gerdau Açominas and a third party (the bank) and deposited with the court the amount that it deemed appropriate as indemnification, corresponding to approximately R\$34,4 million. It stated that it was unsure as to who should receive the payment and claimed that Gerdau Açominas had refused to receive the indemnification and give a general release. The amount deposited with the court was collected by Gerdau Açominas in December 2004. In their responses, the defendants made clear who should receive the payment and demonstrated the insufficiency of the amount deposited with the court. Gerdau Açominas also claimed that the insurance company should deposit the unpaid balance, in the amount of approximately R\$ 311.5 million\*, minus the amount received as advance during the regulation process (R\$ 37.5 million\*) and the amount paid in court, or that the court should determine the amount effectively due. Expert engineering accounting evidence is currently being compiled. Engineering and accounting analyses for such purpose are currently ongoing. Gerdau Açominas expects to be successful in the lawsuits.

Table of Contents

---

\*These amounts were originally claimed or stated in US dollars, and the exchange rate used to convert them into Reais was the official rate published by the Brazilian Central Bank (PTAX 800 transaction, option 5) on December 31, 2011 (R\$1,8758).

***Arbitration Proceedings (Confidential)***

Arbitration proceedings of a confidential nature are currently ongoing, involving a possible loss for the Company of approximately R\$ 22.3 million and a possible gain of approximately R\$ 21.5 million.

**No Material Effect**

Management believes that the probability of losses as a consequence of other contingencies is remote, and that were they to arise, they would not have a materially adverse effect on the consolidated financial position of the Company, its consolidated results of operations or its future cash flows.

**Dividend Distribution Policy**

Brazilian Corporate Law generally requires the by-laws of each Brazilian corporation to specify a minimum percentage of the profits for each fiscal year that must be distributed to shareholders as dividends. The law requires a minimum payout of 25% of adjusted net income. Under the Company's bylaws, this percentage has been fixed at no less than 30% of the adjusted net income (according to the section 19 of the Company's articles of association) for distribution for each fiscal year.

Dividends for a given fiscal year are payable from (i) retained earnings from prior periods and (ii) after-tax income for the same period, after the allocation of income to the legal reserve and to other reserves ( Adjusted Net Income ). In order to convert the dividends paid by the Company from *reais* into U.S. dollars, the institution providing the Company with custodial services ( Custodian ) will use the relevant commercial market exchange rate on the date that these dividends are made available to shareholders in Brazil. Under Brazilian Corporate Law, a Brazilian company is required to maintain a legal reserve, to which it must allocate 5% of net income determined in accordance with the Law for each fiscal year until such reserve reaches an amount equal to 20% of the company's paid-in capital. On December 31, 2011, in accordance with Brazilian GAAP, Gerdau S.A.'s legal reserve amounted to R\$407.6 million (\$217.3 million, using the year-end exchange rate) or 2.1% of total paid-in capital of R\$ 19,249.1 million (\$10,261.8 million, using the year-end exchange rate).

According to Law 9,457, holders of Preferred Shares in a Brazilian corporation are entitled to dividends at least 10% greater than the dividends paid on Common Shares, unless one of three exceptions described in the Law holds. Gerdau S.A.'s executive directors presented a proposal at the 2002 shareholders' meeting, to grant both Common and Preferred shares 100% tag-along rights. Shareholders approved this measure and the right was extended to all shareholders, even though the new Brazilian Corporate Law only requires that such rights be granted to the common minority shareholders (and only for 80% of the consideration paid to the controlling shareholders).

## Edgar Filing: GERDAU S.A. - Form 20-F

Under the amendments to the Brazilian Corporate Law, by extending the tag along rights to minority shareholders, the Company no longer needs to comply with the requirement to pay an additional 10% premium on dividends paid to preferred shareholders. Following the approval and implementation of the amendments to the Company's bylaws to provide for the tag-along rights as described above, the Company now pays the stated minimum dividend of 30% of adjusted net profit (according the section 19 of the Company's articles of association) to all shareholders, from January 1, 2002 dividends paid to preferred shareholders no longer being subject to a minimum 10% premium over those paid to holders of common shares.

As a general requirement, shareholders who are non-resident in Brazil must have their Brazilian company investments registered with the Central Bank in order to be eligible for conversion into foreign currency of dividends, sales proceeds or other amounts related to their shares for remittance outside Brazil. Preferred Shares underlying the ADRs will be held in Brazil by the Custodian as agent for the Depositary Bank ( Depositary ). The holder of Preferred Shares will be the registered holder recorded in the preferred shares register.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian, on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and deliver the same U.S. dollars to the Depositary for distribution to holders of ADRs. If the Custodian is unable to convert the Brazilian currency received as dividends into U.S. dollars immediately, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by any devaluation or depreciation of the Brazilian currency relative to the U.S. dollar that may occur before such dividends are converted and remitted. Dividends in lieu of the Preferred Shares paid to holders who are not resident in Brazil, including holders of ADRs, are not subject to Brazilian withholding tax.

Table of Contents

***Interest on Capital Stock***

Law 9,249 of December 1995, provides that a company may, at its sole discretion, pay interest on capital stock in addition to, or instead of, dividends. A Brazilian corporation is entitled to pay its shareholders interest on capital stock up to the limit of an amount computed as the TJLP (Long-Term Interest Rate) rate of return on its interest on capital stock or 50% of the net income (according BR GAAP) for the fiscal year, whichever is the lower. The payment of interest as described herein is subject to a 15% withholding income tax. See Item 10. Additional Information – Taxation.

***Dividend Policy***

The Company currently intends to pay dividends on its outstanding Preferred Shares at its mandatory distribution rates for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company's financial condition. On March 31, 2003, the Board of Directors approved a new policy for paying dividends and interest on capital stock on a quarterly basis.

Since 1999, dividends have been paid to holders of the Company's Common and Preferred Shares in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate on the date of payment. Relevant amounts are described in Item 3 – Key Information - Selected Financial Data.

**B. SIGNIFICANT CHANGES**

**Recent Developments**

On January 11, 2012, the Board of Directors authorized the Company to acquire shares of its own issuance in exclusively in order to satisfy the Long-Term Incentive Plan for the Company and its subsidiaries, using the available cash supported by existing profit reserves. On January 20, 2012, the shares acquisition was concluded with 2,693,000 preferred shares acquired, in a total of R\$ 44,919 million. For more details, see item 16E.

**Board of Directors, Executive Committee and Board of Auditors.**

Since April 26, 2011, André Pinheiro de Lara Resende is no longer a member of Gerdau's Board of Directors.

## Edgar Filing: GERDAU S.A. - Form 20-F

Since May 31, 2011, Paulo Fernando Bins de Vasconcellos is no longer an Officer of the Company nor a member of the Gerdau Executive Committee.

Francisco Deppermann Fortes and Ricardo Giuseppe Mascheroni are members of the Gerdau Executive Committee since May 3, 2011.

Egon Handel was replaced by Bolívar Charneski as effective member and as financial expert of the Board of Auditors in the shareholder s meeting held on April 26, 2011.

Since June 22, 2011, Mário Longhi Filho is no longer an Officer of the Company nor a member of the Gerdau Executive Committee.

Since December 31, 2011, Alfredo Huallem is no longer an Officer of the Company nor a member of the Gerdau Executive Committee, but he has become a member of the Board of Directors.

### **ITEM 9. THE OFFER AND LISTING**

#### **A. OFFER AND LISTING DETAILS**

On April 12, 2011, the Company carried out a primary public distribution of shares, issuing 68,026,910 common shares and 134,830,100 preferred shares, for a total capital increase of approximately R\$ 3.7 billion. On the same date, a secondary public distribution was held that involved 69,000,000 preferred shares issued by Gerdau S.A. and owned by the shareholders Metalúrgica Gerdau S.A. and Gerdau BG Participações S.A., worth R\$ 1.3 billion, which was fully used by the selling shareholders to subscribe and pay in common shares of the primary offering. Under the scope of the Global Offering, which includes the primary and secondary offerings, a total of approximately R\$ 5.0 billion was raised, of which roughly R\$ 3.7 billion was used for the capital increase at Gerdau S.A. Following said increase, the capital stock now stands at R\$ 19.3 billion, divided into 573,627,483 common shares and 1,146,031,245 preferred shares, all of which are registered, book-entry shares with no par value. The issue price of the shares established after the book building process was R\$ 15.60 per common share and R\$ 19.25 per preferred share issued by Gerdau S.A. The

Table of Contents

funds raised through the offering were used for investments to improve and expand the Company's installed capacity, to strengthen the Company's cash position and to pre-pay a loan contracted by its wholly owned subsidiaries in North America. On April 18, 2011, the primary and secondary public offerings were settled, with a net injection of R\$ 3.6 billion in the Company's cash position. Of this amount, R\$ 2.1 billion has already been used for the pre-payment, on April 21, of a loan contracted by its wholly owned subsidiaries in North America. The remaining balance was added to the Company's cash.

**Price Information***Preferred Stock*

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. preferred stock (GGBR4) listed on the São Paulo Stock Exchange (BOVESPA) for the periods shown, as well as the high and low market prices in U.S. dollars for the same period.

**Closing Price GGBR4 Annual Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
2007	24.98	14.44	14.34	6.76
2008*	39.02	9.95	23.93	4.35
2009	28.72	10.68	16.74	4.55
2010	30.46	19.01	17.13	11.08
2011	24.11	10.77	14.38	6.71

Source: Bloomberg

**Closing Price GGBR4 Quarterly Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2010</b>				
1Q	29.11	23.35	16.81	12.48
2Q	30.46	21.94	17.13	11.58
3Q	25.99	21.94	14.82	12.47
4Q	22.91	19.01	13.47	13.47
<b>2011</b>				
1Q	24.11	19.54	14.38	11.78
2Q	19.64	15.12	12.44	9.46
3Q	16.80	10.77	10.80	6.72



Edgar Filing: GERDAU S.A. - Form 20-F

4Q	15.49	12.56	9.18	6.71
<b>2012</b>				
1Q	19.17	14.53	10.64	7.77

Source: Bloomberg

**Closing Price GGBR4 Monthly Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2011</b>				
January	24.11	20.47	14.38	12.15
February	23.43	21.30	14.08	12.82
March	22.18	19.54	13.41	11.78
April	19.64	17.99	12.44	11.34
May	18.08	16.04	11.48	9.85
June	16.55	15.12	10.48	9.46
July	16.80	13.74	10.80	8.83
August	13.73	10.77	8.79	6.72
September	14.85	12.93	8.51	7.09
October	15.49	12.56	9.18	6.71
November	15.49	12.89	8.86	6.98
December	14.75	13.34	8.08	7.14
<b>2012</b>				
January	16.82	14.53	9.64	7.77
February	18.27	17.12	10.62	9.95
March	19.17	17.10	10.64	9.58

Source: Bloomberg

---

(\*) The stock prices have been retroactively adjusted for all periods to reflect a stock dividend of one share for one shares held, approved in June 2008.

Table of Contents

The common and preferred stock are traded in the market, but only the common stock has voting rights. According to the Company's bylaws, however, specific rights are assured to the non-voting preferred shares. See Gerdaus bylaws, which are provided as an exhibit of this document.

*American Depositary Receipts*

The following table presents high and low market prices for Gerdaus American Depositary Receipts (ADRs) traded on the New York Stock Exchange (NYSE) for the periods shown:

**Closing Price GGB Annual Basis (adjusted for dividends and events)**

Year	U.S. dollars per Share	
	High	Low
2007	14.31	6.78
2008*	23.90	4.00
2009	16.66	4.51
2010	17.26	11.34
2011	14.59	6.71

Source: Bloomberg

**Closing Price GGB Quarterly Basis (adjusted for dividends and events)**

Year	U.S. dollars per Share	
	High	Low
<b>2010</b>		
1Q	17.10	12.49
2Q	17.26	11.82
3Q	15.01	12.61
4Q	13.66	11.34
<b>2011</b>		
1Q	14.59	11.90
2Q	12.51	9.50
3Q	10.65	6.71
4Q	9.35	6.75
<b>2012</b>		
Q1	10.69	8.23

Source: Bloomberg

## Closing Price GGB Monthly Basis (adjusted for dividends and events)

Year	U.S. dollars per Share	
	High	Low
<b>2011</b>		
January	14.59	12.51
February	14.39	13.12
March	13.67	11.90
April	12.51	11.50
May	11.72	9.99
June	10.59	9.50
July	10.65	8.95
August	8.91	6.71
September	8.51	7.04
October	9.35	6.75
November	9.05	7.01
December	8.06	7.13
<b>2012</b>		
January	9.72	8.23
February	10.69	9.91
March	10.67	9.63

Source: Bloomberg

---

(\*) The stock prices have been retroactively adjusted for all periods to reflect a stock dividend of one share for each share held, approved in June 2008.

Table of Contents**Common Stock**

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. common stock (GGBR3) listed on the São Paulo Stock Exchange (BOVESPA) for the periods shown, as well as the high and low market prices in U.S. dollars for the same period.

**Closing Price GGBR3 Annual Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
2007	19.90	12.10	11.39	5.67
2008*	30.70	8.13	18.84	3.63
2009	22.02	8.39	12.90	3.58
2010	22.84	14.45	12.86	8.37
2011	18.00	9.20	10.73	5.52

Source: Bloomberg

**Closing Price GGBR3 Quarterly Basis (adjusted for dividends and events)**

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2010</b>				
1Q	21.76	17.73	12.56	9.46
2Q	22.84	15.85	12.86	8.37
3Q	18.90	16.18	10.77	9.07
4Q	17.28	14.45	10.19	10.19
<b>2011</b>				
1Q	18.00	15.27	10.73	9.24
2Q	15.75	13.01	10.00	8.14
3Q	14.33	9.20	9.21	5.74
4Q	13.13	10.34	7.75	5.52
<b>2012</b>				
1Q	15.61	12.38	8.68	6.62

Source: Bloomberg

**Closing Price GGBR3 Monthly Basis (adjusted for dividends and events)**

Edgar Filing: GERDAU S.A. - Form 20-F

Year	Brazilian reais per Share		U.S. dollars per Share	
	High	Low	High	Low
<b>2011</b>				
January	18.00	15.61	10.73	9.26
February	17.64	16.25	10.60	9.78
March	16.97	15.27	10.26	9.24
April	15.75	14.49	10.00	9.09
May	14.76	13.39	9.38	8.30
June	14.33	13.01	9.04	8.14
July	14.33	11.64	9.21	7.51
August	11.68	9.20	7.48	5.74
September	12.28	10.78	7.09	5.89
October	13.09	10.34	7.75	5.52
November	13.13	11.05	7.54	5.99
December	12.39	11.41	6.91	6.11
<b>2012</b>				
January	13.85	12.38	7.94	6.62
February	14.78	13.79	8.60	8.01
March	15.61	14.05	8.68	7.82

Source: Bloomberg

---

(\*) The stock prices have been retroactively adjusted for all periods to reflect a stock dividend of one share for one shares held, approved in June 2008.

Table of Contents

**B. DISTRIBUTION PLAN**

Not required.

**C. MARKETS**

*São Paulo Stock Exchange - Brasil*

**Trading on the BOVESPA**

The São Paulo Stock Exchange (BOVESPA) is the only stock trade center in Brazil and Latin America's largest stock exchange. Until August, 2007, BOVESPA was a non-profit association owned by its member brokerage firms and trading on the BOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. On August 28, 2007, BOVESPA was subject to a corporate restructuring process that resulted in the creation of BOVESPA Holding S.A., a public corporation which had, as fully-owned subsidiaries, the São Paulo Stock Exchange S.A. (*Bolsa de Valores de São Paulo S.A. - BVSP*) responsible for the operations by the stock exchange and the organized over-the-counter markets and the Brazilian Clearing and Depository Corporation (*Companhia Brasileira de Liquidação e Custódia*) responsible for the settlement, clearing and depository services. Such corporate restructuring has consolidated a demutualization process, thereby causing the access to the trading and other services rendered by the BOVESPA not conditioned to a stock ownership. On May 8, 2008, BOVESPA was subject to another corporate restructuring process that resulted in the creation of BM&F BOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, a public corporation which merged the operations of BOVESPA Holding S.A. and BM&F S.A. On November 28, 2008, Brazilian Clearing and Depository Corporation (*Companhia Brasileira de Liquidação e Custódia*), fully-owned subsidiary of BM&F BOVESPA S.A., was merged into BM&F BOVESPA S.A.

The BOVESPA's trading is conducted between 10:00 a.m. and 5:00 p.m. on the BOVESPA automated system. There is also trading on the so-called After-Market, a system that allows for evening trading through an electronic trading system. Trades are made by entering orders in the Mega Bolsa electronic trading system, created and operated by BOVESPA. The system places a ceiling on individual orders of R\$ 100,000 and price variations are limited to 2% (above or below) the closing quote of the day.

In order to better control volatility, the BOVESPA adopts a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the index of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session. If any circuit breaker takes place during the day, trading sessions thereafter may be suspended by a period of time to be determined as per BOVESPA's own discretion whenever the index of the BOVESPA falls below the limit of 20% in relation to the index registered in the trading session of the day before.

Since March 17, 2003, market making activities have been allowed on the BOVESPA. The CVM (*Comissão de Valores Mobiliários*) and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading of securities

listed on the BOVESPA may be effected off the stock exchange market under certain circumstances, although such trading is very limited.

Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling shareholders that rarely trade their shares. For this reason, data showing the total market capitalization of the BOVESPA tends to overstate the liquidity of the Brazilian equity market, which is relatively small and illiquid compared to major world markets.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

Trading on the BOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. *See Regulation of Foreign Investments in Brazil* .

#### **Corporate Governance Practices in Brazil**

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado*, aimed at encouraging Brazilian companies to follow good corporate

Table of Contents

governance practices and higher levels of transparency, as required by Brazilian Corporate Law. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

The Company is listed on the Level 1 segment of the BOVESPA. To become a Level 1 company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (iii) comply with minimum quarterly disclosure standards, including cash flow statements; (iv) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers; (v) disclose the terms of the transactions with related parties; (vi) make a schedule of corporate events available to shareholders; and (vii) at least once a year, hold public meetings with analysts and investors.

On March 21, 2011, the Securities and Exchange Commission of Brazil (CVM) approved the new text of the Corporate Governance Level 1 Listing Rules of BM&FBOVESPA that became effective on **May 10, 2011**. As of the effective date aforementioned, therefore, the companies listed on Level 1 segment of BM&FBOVESPA are subject to what has been laid out in the Corporate Governance Level 1 Listing Rules, in accordance with the changes.

In order to be adapted to the changes to the Listing Rules, the companies listed in Level 1 segment must adopt the following provisions within the terms informed below:

- a) Inclusion in the company bylaws of the mandatory minimum clauses set out by BM&FBOVESPA no later than: (i) the first Extraordinary General Meeting held 90 (ninety) days after the new Rules entered into force; or (ii) the date on which the company holds its general meeting to approve the financial statements; what happens first.
  
- b) The preparation and publication of the Policy on Trading Securities and the Code of Conduct, which should occur within the deadline of one year as from the date on which the new Listing Rules came into force;
  
- c) Compliance, as from May 10, 2014, with the rule contained in item 4.3 of the new Corporate Governance Level 1 Listing Rules, which consists of a prohibition on the accumulation of the position of Chairman of the Board of Directors and Chief Executive Officer or lead executive in the same company by a single person.

**Regulation of the Brazilian Securities Market**

The Brazilian securities markets are regulated by the CVM (*Comissão de Valores Mobiliários*), which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by the Brazilian Securities Law



## Edgar Filing: GERDAU S.A. - Form 20-F

(Law N. 6,385 of December 7, 1976, as amended) and the Brazilian Corporate Law (Law N. 6,404 of December 15, 1976, as amended).

Law 11,638, of December 28, 2007, and Law N. 11,941, of May 27, 2009 (which resulted from the conversion into law of Provisional Decree (MP) N. 449, of December 3, 2008), amended a number of provisions of Law N. 6,385/76 and Law N. 6,404/76, related to accounting rules and financial statements of Brazilian corporations. The new changes aim to bring Brazilian accounting rules/financial statements closer to international standards.

Under the Brazilian Corporate Law, a company is either publicly held, such as Gerdaul S.A., or closely held. All publicly held companies must apply for registration with the CVM and are subject to ongoing reporting requirements. A publicly held company may have its securities traded either on the BOVESPA or on the Brazilian over-the-counter markets (Brazilian OTC). The shares of a publicly held company, including Gerdaul S.A., may also be traded privately subject to certain limitations established in CVM regulations.

CVM has issued Instruction N. 480, of December 7, 2009, that provides for the requirements for the registration of publicly held companies and companies that intend to trade securities in regulated securities markets. The referred CVM Instruction N. 480/09 significantly modified the reporting requirements applicable to publicly held companies and set forth the obligation to such companies to present annually to CVM a Reference Form (*formulário de referência*) containing all of the company's relevant information and to update the information contained therein as soon as any relevant changes occur.

In addition to such reporting requirements, the occurrence of certain events also requires disclosure of information to the CVM, the BOVESPA, or even the public. These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the share capital of a publicly held company, (ii) the sale of shares representing the transfer of control of a publicly held company and (iii) the occurrence of a material event to the corporation. On March 5, 2002, the CVM issued Instruction N. 361, which regulates tender offers if one of the following events occurs: (i) delisting of companies; (ii) an increase in the equity interest of the controlling shareholder; or (iii) the transfer of control of a public held company.

Table of Contents

The Brazilian OTC market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a publicly held company to be traded on the Brazilian OTC. The CVM must be notified of all trades carried out on the Brazilian OTC by the company's respective intermediaries. The trading of a company's securities on the BOVESPA may be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM on the basis of a belief that a company has provided inadequate information regarding a material event, has not provided an adequate response to the inquiries by the CVM or the stock exchange, or for other reasons.

The laws and regulations regarding the Brazilian Securities Market provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or those in certain other jurisdictions.

**Regulation of Foreign Investment in Brazil**

Foreign investors may either register their investments in the Company's shares as a foreign direct investment under Law N. 4,131/62 and CMN (*Conselho Monetário Nacional*) Resolution N. 3,844/10 or as a portfolio investment under CMN Resolution N. 2,689/00 and CVM Instruction N. 325/00, both as amended. Foreign investors, regardless of whether their investments are made as foreign direct investments or portfolio investments, must be enrolled with the RFB (*Receita Federal do Brasil*, the Brazilian internal revenue service) pursuant to its Regulatory Instruction N. 1,005, of February 08, 2010, as amended. This registration process is undertaken by the investor's legal representative in Brazil.

Law N. 4,131/62 and CMN Resolution N. 3,844/10 provide that, after a foreign direct investment is made, an application for its registration with the Central Bank must be submitted by the investee and the non-resident investor, through its independent representatives in Brazil, within 30 days. The registration of the foreign direct investment with the Central Bank allows the foreign investor to remit abroad resources classifiable as capital return, resulting either from: (i) the transfer of corporate interests to Brazilian residents, (ii) capital reduction, or (iii) the liquidation of a company, as well as funds classified as dividends, profits or interest on shareholders' equity. Foreign investors with foreign direct investments may also divest those investments through private transactions or transactions conducted through the stock exchange or the over-the-counter market. See *Taxation - Brazilian Tax Considerations* for information regarding the taxation of such transactions.

There are no restrictions on ownership of the Company's shares by individuals or legal entities domiciled outside Brazil. With certain limited exceptions, under CMN Resolution N. 2,689/00 investors are permitted to carry out any type of transaction in the Brazilian financial and capital markets involving a security traded on a stock, futures or organized over-the-counter markets. Investments and remittances outside of Brazil of gains, dividends, profits or other payments for common and preferred shares are made through the exchange market. See *Exchange Controls* for further information regarding non-Brazilian holders who qualify under CMN Resolution N. 2,689/00.

Securities and other financial assets held by non-Brazilian investors pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

**Trading on Exchanges outside Brazil**

In addition to the BOVESPA, Gerdau shares are traded on two other stock exchanges:

*New York Stock Exchange*

On March 10, 1999, Gerdau S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs have been traded in virtually every session since the first trading day. In 2011, 2.3 billion ADRs were traded, a figure 37.5% higher than in 2010, representing a trading volume of \$23.4 billion, equivalent to a daily average of \$93.0 million.

*Latibex Madrid Stock Exchange*

Since December 2, 2002, Gerdau S.A.'s preferred shares have been traded on the Latibex, the segment of the Madrid Stock Exchange devoted to Latin American companies traded in Euros. Following approval by the CVM and the Brazilian Central Bank, this date marked the beginning of the Depositary Receipts (DR) Program for preferred shares issued by the Company in Spain. The shares are traded in Spain under the symbol XGGB in the form of DRs, each corresponding to one preferred share. This participation in the Latibex boosted the Company's visibility in the European market. In 2011, a total of 994 thousand Gerdau preferred shares were traded on the Madrid Stock Exchange (Latibex), a figure 42.7% lower than in 2010, representing a trading volume of \$9.5 million, equivalent to a daily average of \$37 thousand.

Table of Contents

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Gerdau's bylaws have been registered with the Public Registry of the State of Rio de Janeiro (Junta Comercial do Rio de Janeiro) under company number (NIRE) 33.3.0003228-8.

The last amendment to the bylaws was made on December 30, 2010, and it was registered with the Public Registry of the State of Rio de Janeiro in January 1st, 2011, under number 00002136102.

The consolidated By-laws are attached hereto as Exhibit 1.1.

***Objects and Purposes***

According to the consolidated By-laws of the Company, its objects and purposes are described in the article 2, as stated below:

**Art. 2** - The Company, which will have an unlimited lifetime, has the following purposes: a) interests in the capital of companies actuating in the industry and trade of steel and/or metallurgical products, with plants integrated to ports or not, as well as other companies and industrial consortia, including activities of research, mining, ore industrialization and trading, elaboration, execution and administration of forestation and reforestation, as well as the trade, export and import of goods, conversion of forests into charcoal, transport of goods of its own manufacture and port operator activities, referred to in Law No. 8.630, of February 8, 1993; and b) industry and trade exploitation, including representation, importing and exporting of steel, iron and related products.

***Summary of Special Conditions Relating to Directors and Officers***

## Edgar Filing: GERDAU S.A. - Form 20-F

Although the bylaws do not specifically address this matter, the Company, its directors and officers are obliged to adhere the provisions of Law 6.404/76 (Corporate Law), which regulates corporations in Brazil. In addition, the Company also observes the rules and corporate governance recommendations of the Brazilian Stock Exchange Commission (CVM) and the São Paulo Stock Exchange (BM&FBOVESPA).

In general terms, Section 153 of the Corporate Law establishes that in exercising his/her duties, a company director or officer shall employ the care and diligence, which a person normally employs in the administration of his/her own affairs.

In addition, Section 154, paragraph 2 of the Corporate Law, states that directors and officers shall not: a) perform an act of liberality at the expense of the company; b) borrow money or property from the company or use company's property, services or credits for his/her own advantage or for the advantage of any entity in which he/she/any third party has an interest, without the prior approval of a general shareholders meeting or the board of directors; c) by virtue of his/her position, receive any type of direct or indirect personal benefit unless according to the Company's bylaws or a general shareholders meeting.

Finally, Section 156 of the Corporate Law states that: An administrator (member of the board of directors and executive officers) shall not take part in any corporate transaction in which he/she has an interest which conflicts with an interest of the corporation, nor in the decisions made by the other officers on the matter.

Regarding the decision on director's compensation, the bylaws of the Company state that the shareholders are in charge of fixing the global remuneration of the administrators (member of the board of directors and executive officers) and the board of directors is in charge of fixing the individual remuneration of directors and officers (article 6, letter j of the bylaws).

With regard to borrowing powers exercisable by the directors, the bylaws state that:

- Article 6, letter u: The Board of Directors should set on a periodic basis, value criteria, time of duration, extension of effects, etc., for which certain company acts, including loans by and to the Company, may only be effected by one or more Executive Officers or after prior authorization by the Executive Committee;

Table of Contents

- Article 6, § 7º: The Board may decide to create specific committees linked to itself, which shall include one or more of its members, with or without the participation of Executive Officers, Company employees or contracted third-parties with the aim of coordinating or orienting certain corporate processes or operations.

The bylaws state that the director shall be a shareholder (article 6th), it means that director should hold at least 1 share of the company to take office. Corporate Law set-forth this same requirement until June 24, 2011. Considering that the Corporate Law was amended on such date in order to have this requirement excluded, the bylaws of the Company will probably be amended by the Shareholders in the following shareholders meeting in this regard.

*Rights, preferences and restrictions attaching to each class of the shares*

Gerdaus capital stock is divided into common and preferred shares.

- **Rights to dividends**

All common and preferred shares enjoy the same rights to dividends, which are established by the Company's bylaws as a minimum mandatory percentage of 30% of net income, with the following adjustments:

(i) the addition to the following amounts:

- amounts arising during the fiscal year from the reversal of previous contingency reserves;
- amounts resulting from the realization, during the fiscal year, of profits that have previously been transferred to the unrealized profit reserve line;
- amounts arising from the realization during the fiscal year of increases in the value of assets, as a result of new valuations, recorded as revaluation reserve.

(ii) the subtraction of amounts assigned during the fiscal year for the constitution of legal reserves, the reserve for contingencies, the unrealized profit reserve and the tax incentive reserve.

For additional information, please see the item Dividend Policy above.

- **Voting rights**

According to our bylaws, the common shares have voting rights and the preferred shares have no voting rights although the holders of preferred share are entitle to attend to shareholders meetings and to participate in the discussions.

Note, however, that the Company's bylaws state, in Article 19, Paragraph 11, that the preferred shares shall acquire the right to vote if the Company, for three consecutive fiscal years, fails to pay the minimum dividends to which they are entitled, a right that the shares will hold until the first subsequent payment of dividends that the Company makes.

Shareholders representing the majority of:

a) holders of preferred shares without voting rights (or with restricted voting rights) representing 10% of the total capital stock; and

b) holders of at least 15% of the voting capital stocks; shall have the right to elect and remove from office a member and his substitute from the board of directors, in a separate election at the general meeting, being excluded from such election the majority shareholder.

If neither the holders of shares with voting rights nor the holders of preferred shares without voting rights or with restricted voting rights are sufficient to achieve the quorum above, they shall be allowed to aggregate their shares in order to jointly elect a member and his substitute for the board of directors, in this case considering the quorum of 10% of the capital.

Shareholders representing at least one-tenth of the voting capital may also request that the election of directors be subject to cumulative voting, if present this request to the company up to 48 hours prior to the general shareholders meeting.

Notwithstanding the provisions aforementioned, the controlling shareholders shall always have the right to elect the majority of the members of the board of directors of a Brazilian company.

Based upon section 161 §4th of Corporate Law, the holders of preferred shares without voting rights or with restricted voting rights shall be entitled to elect one member of the board of auditors and his alternate in a separate election. The





Table of Contents

minority shareholders shall have the same right, provided that they jointly represent ten per cent or more of the voting shares.

- **Rights to the reimbursement of capital**

The preferred shares enjoy preference in the reimbursement of capital, up to the value of their respective interest in the capital stock, in the event of the Company's dissolution, after which the common shares are reimbursed up to the value of their respective fractional participation in the capital stock, with the remaining balance distributed on equal conditions among the holders of the common and preferred shares.

**Liability to further capital calls and Shareholders owning a substantial number of shares**

There are no specific provisions in the bylaws of liability to further capital calls by the Company or provisions discriminating against any existing or prospective holder of such securities as a result of such shareholder owning a substantial number of shares.

**Changes to the rights**

The Brazilian Corporate Law states, in its Section 109, that neither the bylaws nor a general meeting may deprive a shareholder of the right:

a) to participate in the corporate profits;

b) to participate in the assets of the corporation in the case of liquidation;

c) to supervise the management of the corporate business as provided for in the Corporate Law;

d) of first refusal in the subscription of shares, founders' shares convertible into shares, debentures convertible into shares and subscription bonuses, and

e) to withdraw from the corporation in the cases provided for in the Corporate Law.

Furthermore, Section 16, sole paragraph of Corporate Law set forth that, unless expressly provided for, an amendment to that part of the bylaws which regulates the different classes of shares shall require the approval of the shareholders of all shares thereby affected.

On the same hand, Section 136, §1st of Corporate Law states that any changes in the preferences or rights of the preferred shares, or the creation of a class of shares having priority in relation to the existing preferred shares, unless the change is authorized by our bylaws, would require the approval of the preferred shareholders in a special shareholders meeting, in addition to approval by the majority of the holders of the outstanding voting shares.

#### **Annual general meetings and extraordinary general meetings of shareholders**

The call for the annual general meeting and extraordinary general meeting of Gerdau shall be made by a notice published on at least three occasions in the Jornal do Commercio do Rio de Janeiro, Valor Econômico, São Paulo edition, and Diário Oficial do Estado do Rio de Janeiro. The call shall contain, in addition to the place, date and time of the general meeting, the agenda and, in the case of an amendment to the bylaws, an indication of the subject-matter.

The first call of the general meeting shall occur: fifteen (15) days in advance, and the second call eight (8) days in advance.

Apart from the exceptions provided by law, the opening of a general meeting shall occur on first call with the presence of shareholders representing at least one-quarter of the voting capital; and on the second call, with any number.

The investors attending a general meeting shall produce proof of their shareholder status. According to Gerdau's bylaws, the Company may require, within a period established in the notice of calling, the depositing of proof of ownership of shares, submitted by the financial institution acting as depositary for the same shares, as well as to suspend, for the same period, transfer and stock split services.

A shareholder may be represented at a general meeting by a proxy, appointed less than one year before, who shall be a shareholder, a corporation officer, a lawyer, or a financial institution. A condominium shall be represented by its investment fund officer.

A request for the appointment of a proxy, made by post or by public notice, shall satisfy the following requirements:

(a) contain all information necessary to exercise the requested vote;

Table of Contents

(b) entitle the shareholder to vote against a resolution by appointing another proxy to exercise the said vote;

(c) be addressed to all shareholders whose addresses are kept by the corporation.

Subject to the requirements aforementioned, any shareholder whose shares with or without voting rights represent one-half percent or more of the capital shall be entitled to request a list of the addresses of the shareholders

The legal representative of a shareholder shall receive an authorization to attend general meetings.

**Limitations on the rights of non-residents and foreign shareholders to own securities**

There are no limitations on the rights to own securities by non-residents or foreign shareholder set forth in the Bylaws of Gerdau S.A. The Brazilian Law neither establishes limitation. Note that some procedures shall be observed by the foreign companies for the remittance of funds (see item 10.D, below).

A shareholder resident or domiciled abroad must maintain a representative in Brazil empowered to accept service of process in proceedings brought against him under this Law.

**Change in control of the company**

Brazilian Corporate law states that the direct or indirect transfer of control of a publicly held corporation can only be effective under the condition that the purchaser agrees to conduct a public offer to acquire the voting shares owned by the remaining shareholders.

Our bylaws attribute to all shares the right to be included in any public offering involving the transfer of control, guaranteeing the same price paid per share with voting rights that are part of the controlling block.

**Disclosure of shareholders ownership**

## Edgar Filing: GERDAU S.A. - Form 20-F

With regard to the disclosure of ownership, shareholders shall observe the rule 358 enacted by the Brazilian Exchange Commission, which sets forth that:

*Article 12. The direct or indirect controlling shareholders and the shareholders that vote for members of the Fiscal Board of Directors, as well as any person or company or group of people acting together or representing the same interest that have either direct or indirect participation corresponding to 5% (five percent) or more in type or class of shares representing the capital of a publicly held company, shall send to the company the following information:*

*I the announcers' name and qualification, indicating their National Register of Legal Persons or the Register of Natural Persons;*

*II objective of the participation and quantity envisaged, if it is the case, including a declaration of the buyer that purchases will not alter the composition of the control or administrative structures of the company;*

*III number of shares, subscription bonus, as well as rights to subscribe to shares and options to buy shares, by sort and type, already held, directly or indirectly, by the assignor or linked person.*

*IV number of convertible debentures into shares, already held, directly or indirectly, by the assignor or linked person, explaining the quantity of shares intended to be converted, by sort and type; and*

*V indication of any agreement or contract regulating the right to vote or purchase and sale securities issued by the company.*

*Paragraph 1 Individuals or groups of individuals representing a common interest are also under the obligation to disclose the same information, given they are shareholders holding shares of equal or higher stockholdings percentages stated in this article, every time this participation increases 5% (five per cent) of the sort or type of representative share of the company's share capital.*

*Paragraph 2 The obligations provided for in the caput and paragraph 1 are also extended to the acquisition of any rights over shares and further securities stated there.*

*Paragraph 3 The communication referred to in the caput shall be performed immediately after the mentioned participation is accomplished.*

*Paragraph 4. The people mentioned in the caput of this article shall also communicate the alienation or extinction of shares and other securities mentioned in this article, or of rights over them, every time the participation of the owner in type or class of the securities mentioned reaches 5% (five percent) of the total of such type or class, and every time such participation is reduced by 5% (five percent) of the total in type or class.*

( )

Table of Contents

**Conditions more stringent governing changes in the capital than is required by law**

There are no conditions imposed by the bylaws more stringent than is required by Law governing changes in the capital.

**C. MATERIAL CONTRACTS**

For information concerning material contracts regarding the acquisition of assets, see Item 4 Company Information, Item 5 Operating and Financial Review and Prospects and Item 8 Financial Information. Gerdau S.A. has entered into financial agreements in order to finance its expansion projects and improve its debt profile. Although some of these contracts entail significant amounts, none exceeds 10% of the Company's consolidated total assets. The most significant financial agreements are described below, with the Company agreeing to provide a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.

**Bond 2021** - On October 1, 2010, the subsidiary Gerdau Trade Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2011). Part of the proceeds of this issue were used to prepay the Perpetual Bonds on September 22, 2010, in the amount of US\$ 600 million (R\$ 1,031 million as of September 22, 2010). The Perpetual Bonds were issued on September 15, 2005 and had no final maturity date.

**Bond 2020** - On November 18, 2009, the subsidiary Gerdau Holdings Inc. concluded the issue of bonds in the amount of US\$ 1.25 billion and final maturity on January 20, 2020. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.25 billion (R\$ 2.3 billion as of December 31, 2011).

**Bond 2017** - On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the issue of bonds in the amount of US\$ 1.00 billion with subsequent reopening of US\$ 500 million, totalizing US\$ 1.5 billion and final maturity on October 20, 2017. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding balance of this facility was US\$ 1.5 billion (R\$ 2.8 billion as of December 31, 2011).

**Term Loan Facility** - On September 10, 2007, the subsidiaries Gerdau Ameristeel US Inc. and GNA Partners entered into a Senior Acquisition Financing in the amount of US\$ 2.75 billion and final maturity on September 14, 2013. The following companies guaranteed this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A., Gerdau Ameristeel Corporation and Gerdau Açominas Overseas Limited. On April 21, 2011 the company has totally prepaid the Term Loan Facility in the amount of US\$ 1.3 billion (R\$ 2.1 billion as of April 21, 2011).

**BNDES** - In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500 million bearing interest rate of TJLP +

2.21% per annum when drawn. The transaction is guaranteed per aval and financial covenants by Metalúrgica Gerdau S.A.. On December 31, 2011 the outstanding amount of this facility was R\$ 228.3 million.

**Acquisition of Corporación Sidenor, S.A.**

On November 15, 2005, the subsidiary Gerdau Hungria Holdings signed, together with two Spanish companies, one a company belonging to the Santander Group, and other composed of the main executives of the administration of the Sidenor Group, as purchasers, and Industria Férricas del Norte Inversiones, S.L., as the seller, a purchase agreement for the acquisition of all the capital stock of Corporación Sidenor, S.A., in Spain.

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 interest 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. On December 23, 2010, Santander and the Company renewed the put option of the participation in Sidenor and the maturity date of the put option became January 10, 2014, and can be exercised in advance on each month of January from 2012 until the maturity date. The put option price became 208.648 (R\$ 464.868 on December 31, 2010), accrued by a fixed

Table of Contents

interest rate. 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 since the acquisition date, an additional interest of 40% of Sidenor as its investment. As of December 31, 2010, such potential obligation totaled R\$ 464.868 (R\$ 449.599 as of December 31, 2009)

On December 19, 2008 the subsidiary Gerdau Hungria Holdings indirectly acquired an additional 20% interest in Corporación Sidenor, S.A.. The total amount paid by Gerdau Hungria Holdings was approximately \$ 288.0 million (R\$ 674.0 million in the acquisition date), drawing on its own funds. As a result of this acquisition, Gerdau Hungria Holdings directly and indirectly holds 60% of Corporación Sidenor's capital, and Grupo Santander, with which Grupo Gerdau will continue to share control, holding the remaining 40%.

**D. EXCHANGE CONTROLS**

There are no restrictions on ownership or voting of the Company's paid-in capital by individuals or legal entities domiciled outside Brazil. The right to convert dividend payments and proceeds from the sale of the Company's paid-in capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally require, among other things, the prior registration of the relevant investment with the Central Bank.

In Brazil, a mechanism is available to foreign investors interested in trading directly on the BOVESPA. Until March 2000, this mechanism was known as Annex IV Regulations, in reference to the Annex IV of CMN Resolution N. 1,289/87 ( Annex IV Regulations ). Currently, this mechanism is regulated by CMN Resolution N. 2,689/00.

CMN Resolution N. 2,689/00, which took effect on March 31, 2000, establishes rules for foreign investments in Brazilian equities. Such rules allow foreign investors to invest in almost all types of financial asset and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled.

Pursuant to CMN Resolution N. 2,689/00, foreign investors are defined as individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. CMN Resolution N. 2,689/00 prohibits the offshore transfer or assignment of title to the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to CMN Resolution N. 2,689/00, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with the CVM; (iv) appoint an authorized custodian in Brazil for its investment and (v) register the foreign investment with the Central Bank. The securities and other financial assets held by the foreign investor pursuant to CMN Resolution N. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading are restricted to transactions carried out on exchanges or organized over-the-counter markets licensed by the CVM. All investments made by a foreign investor under CMN Resolution N. 2,689/00 will be subject to electronic registration with the Central Bank.

## Edgar Filing: GERDAU S.A. - Form 20-F

CMN Resolution N. 1,927/92 of the National Monetary Council, which is the Amended and Restated Annex V to CMN Resolution N. 1,289/87 ( Annex V Regulations ), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Since ADRs have been approved under the Annex V Regulations by the Central Bank and the CVM, the proceeds from the sale of the ADRs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADRs will be subject to a more favorable tax treatment. According to CMN Resolution N. 2,689/00, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by CMN Resolution N. 2,689/00 and vice versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

A foreign investment registration has been made in the name of The Bank of New York Mellon, as Depositary for the Preferred ADRs ( Depositary ), and is maintained by Banco Itaú S.A. ( Custodian ) on behalf of the Depositary. Pursuant to the registration, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Preferred Shares represented by Preferred ADRs into foreign currency and remit the proceeds abroad. Subject to the provisions set forth in Annex V Regulations, holders of preferred ADRs may exchange such ADRs for the underlying Preferred Shares. In this event, such a holder will be entitled to continue to rely on the Depositary's registration of foreign investment for only five business days after such exchange, after which time, the same holder must seek its own registration with the Central Bank.

The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADRs will be the U.S. dollar equivalent to (i) the average price of the Preferred Shares on the BOVESPA on the day of withdrawal, or (ii) if no



Table of Contents

Preferred Shares were sold on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding the same withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Foreign Exchange rates quoted by the Central Bank on the same date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares). A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Thereafter, unless the Preferred Shares are held pursuant to CMN Resolution No. 2,689/00 or to Law N. 4,131/62 by a foreign investor, the same holder may not be able to convert into foreign currency and remit the proceeds outside Brazil from the disposal of, or distributions with respect to, such Preferred Shares, and will generally be subject to less favorable Brazilian tax treatment than a holder of Preferred ADRs.

Restrictions on the remittance of foreign capital overseas could hinder or prevent the Custodian, as custodian for the Preferred Shares represented by Preferred ADRs, or holders who have exchanged Preferred ADRs for Preferred Shares, from converting dividends, distributions or the proceeds from any sale of Preferred Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of Preferred ADRs could be adversely affected by delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying the Preferred ADRs.

**Exchange Rates**

Before March 2005, there were two legal foreign exchange markets in Brazil, the commercial market and the floating market. The difference between these two markets was the type of transaction that could be performed through each market.

On March 4, 2005, through CMN Resolution N. 3,265 (revoked and replaced by CMN Resolution N. 3,568, of May 29, 2008), CMN introduced a single foreign exchange market and abolished the legal differences between the referred Commercial and Floating Markets. Among the modifications to foreign exchange market rules is a greater freedom to remit funds abroad through the foreign exchange market. On the other hand, the so-called CC5-Accounts, which are bank accounts in *reais* held in Brazil by foreign entities, may no longer be used to transfer funds on behalf of third parties.

On March 24, 2010, the CMN approved Resolution No. 3,844, adopting a series of measures to consolidate and simplify the Brazilian foreign exchange regulations. These changes are expected to reduce the effective cost of foreign exchange transactions and the related administrative expenses for both the public and private sectors as well as to provide more legal certainty to the parties to such transaction.

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.

The current exchange rates from U.S Dollar to Brazilian Reais are demonstrated in the table of item 3.A, Exchange rates between the United States Dollar and Brazilian Reais .

## E. TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of Common Shares, Preferred Shares and ADRs. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase those securities. In particular, this summary deals only with holders that will hold Common Shares, Preferred Shares or ADRs as capital assets (generally, property held for investment) and does not address the tax treatment of a holder that may be subject to special tax rules, like a bank, an insurance company, a dealer in securities, a person that will hold Common Shares, Preferred Shares or ADRs in a hedging transaction or as a position in a straddle , conversion transaction or other integrated transaction for tax purposes, a person that has a functional currency other than the U.S. dollar, a person liable for alternative minimum tax, a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) or a person that owns or is treated as owning 10% or more of the voting shares of the Company. Each prospective purchaser of a Common Share, Preferred Share or ADR should consult his own tax advisers as to the personal tax consequences of his investment, which may vary for investors in different tax situations. The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements as in effect on the date hereof. Those authorities are subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax

Table of Contents

authorities of the two countries have had discussions that may culminate in a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the US holders of Common Shares, Preferred Shares or ADRs. This summary is also based upon the representations of the Depositary (as defined below) and on the assumption that each obligation in the Deposit Agreement relating to the ADRs and any related documents will be performed in accordance with its terms.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of common shares, preferred shares or ADRs by a holder that is not resident or domiciled in Brazil for purposes of Brazilian taxation, which we refer to as Non-Resident Holder .

The following is a general discussion only. It does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Resident Holder. The discussion does not address the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. The discussion does not address either any tax consequences under the laws of any state or municipality of Brazil.

Income tax

Dividends

Dividends paid by a Brazilian corporation, such as our company, including stock dividends and other dividends paid to a Non-Resident Holder of common shares, preferred shares or ADRs, are currently not subject to withholding income tax in Brazil to the extent that such dividends are related to profits generated on or after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, according to the tax legislation applicable to each corresponding year.

Interest Attributable to Shareholders Equity

Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as our company, to make distributions to shareholders of interest on shareholders equity and to treat such payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, as far as the limits described below are observed. For tax purposes, this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate ( TJLP ), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after the deduction of social contribution on net profits and before taking into account the provision for corporate income tax and the amounts attributable to interest on shareholders equity) for the period in respect of which the payment is made; and

- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest to a Non-Resident Holder is subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is resident or domiciled in a country or location (1) that does not impose income tax or (2) where the maximum income tax rate is lower than 20% or (3) where the laws of that country or location do not allow access to information regarding the shareholding composition of legal entities, their ownership, or the identity of the beneficial owners of earnings attributable to non-residents ( Tax Favorable Jurisdiction ). Please refer to

Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that the concept of Tax Favorable Jurisdiction may be broadened by Law No. 11,727.

Payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends, is at least equal to the mandatory dividend.

#### Capital Gains

According to Law No. 10,833, dated December 29, 2003, gains deriving from the disposition of assets located in Brazil by a Non-Resident Holder, whether to another non-Brazilian resident or to a Brazilian resident may be subject to withholding income tax in Brazil.

Table of Contents

With respect to a disposition of common or preferred shares, as they are assets located in Brazil, the Non-Resident Holder will be subject to withholding income tax on the gains assessed, following the rules described below.

Regarding the ADRs, although the matter is not entirely clear, arguably the gains realized by a Non-Resident Holder on the disposition of ADRs are not taxed in Brazil, based on the argument that ADRs are not assets located in Brazil for purposes of Article 26 of Law No. 10,833. We cannot assure you, however, that Brazilian tax authorities or Brazilian tax courts will agree with this interpretation. Accordingly, in the event that ADRs are deemed to be assets located in Brazil for purposes of Article 26 of Law No. 10,833, gains on a disposition of ADRs by a Non-Resident Holder will be subject to withholding income tax in Brazil, following the rules described below.

As a general rule, gains realized as a result of a disposition of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) are the positive difference between the amount realized on the disposition, and the cost of acquisition of the shares disposed of, measured in Reais (without any correction for inflation). There are grounds, however, for maintaining that the gains realized should be calculated taking into consideration the cost of the relevant investments in foreign currency, as so registered with the Central Bank.

The rules related to the levy of withholding income tax on such gains will vary depending on the domicile of the Non-Resident Holder, the type of registration of the investment by the Non-Resident Holder with the Central Bank, and how the disposition is carried out, as described below.

Gains assessed on a disposition of common or preferred shares carried out on the Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when assessed by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of National Monetary Council Resolution No. 2,689, dated January 26, 2000 ( 2,689 Holder ) and (2) is not domiciled or resident in a country or location that does not tax income, or that taxes income at a maximum rate lower than 20% ( Low or Nil Tax Jurisdiction ). Please refer to Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that the concept of Low or Nil Tax Jurisdiction may be broadened by Law No. 11,727; or
- subject to income tax at a rate of 15% in any other case, including a case of gains assessed by a Non-Resident Holder that is not a 2,689 Holder, and of a Non-Resident Holder that is domiciled or resident in a Low or Nil Tax Jurisdiction. In these cases, a withholding income tax of 0.005% on the sale value will be applicable and can be later offset against income tax due on any capital gain realized on the transaction.

Gains assessed on a disposition of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil) that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, or of 25% in the case of a Non-Resident Holder that is domiciled or resident in a Low or Nil Tax Jurisdiction or in a Tax Favorable Jurisdiction. Please refer to Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions and Privileged Tax Regimes below for a discussion that these concepts may be broadened by Law No. 11,727. In the event that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against income tax due on any capital gain realized on the transaction.

## Edgar Filing: GERDAU S.A. - Form 20-F

In the event of a redemption of common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil ) or of a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the respective common or preferred shares (or ADRs, in case they are deemed to be assets located in Brazil ) will be treated as a capital gain derived from a disposition that is not carried out on a Brazilian stock exchange market, and therefore will be subject to withholding income tax at a rate of 15% or up to 25%, as the case may be.

Any exercise of preemptive rights relating to the common or preferred shares or ADRs will not be subject to Brazilian income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights relating to common shares, preferred shares or ADRs will be subject to Brazilian income tax according to the same rules described above.

As a Non-Resident Holder of ADRs, you may cancel your ADRs and exchange them for common or preferred shares. Income tax may not be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment with the Central Bank, and as long as ADRs are not deemed to be assets located in Brazil .

The deposit of common or preferred shares by a Non-Resident Holder in exchange for ADRs may trigger Brazilian income tax on the capital gain presumably realized, at a rate of 15%, or of 25% in the case of a Non-Resident

Table of Contents

Holder that is domiciled or resident in a Low or Nil Tax Jurisdiction or in a Tax Favorable Jurisdiction. There are grounds to sustain, however, that such transaction should not trigger Brazilian income tax, provided that the appropriate rules are complied with in connection with the registration of the transaction with the Central Bank.

There can be no assurance that the current favorable tax treatment of 2,689 Holders will continue in the future.

Discussion on Low or Nil Tax Jurisdictions, Tax Favorable Jurisdictions, and Privileged Tax Regimes

Law No. 11,727, dated June 24, 2008, with effect as of January 1, 2009, created the concept of privileged tax regime, considered as such the tax regime that (1) does not tax income or taxes it at a maximum rate lower than 20%; or (2) grants tax benefits to non-resident entities or individuals (a) without requiring the exercise of a substantial economic activity in the country or location or (b) contingent to the non-exercise of a substantial economic activity in the country or location; or (3) does not tax or taxes at a maximum rate lower than 20%, in particular, income earned outside of the respective country or location; or (4) does not allow access to information related to shareholding composition, ownership of assets and rights, or economic transactions that are carried out ( Privileged Tax Regime ).

The concept of Privileged Tax Regime should only apply to specific types of transactions, including those subject to transfer pricing rules. Rulings issued by Brazilian tax authorities seem to confirm this interpretation. Notwithstanding, one cannot completely disregard the risk of tax authorities trying to argue that the more burdensome tax treatment generally applicable to residents in Low or Nil Tax Jurisdictions and in Tax Favorable Jurisdictions should also apply with regard to non-residents in Privileged Tax Regimes.

Tax on Foreign Exchange Transactions

Brazilian law imposes a Tax on Foreign Exchange Transactions ( IOF/FX ) due on the liquidation of foreign exchange agreements related to the conversion of reais into foreign currency and on the conversion of foreign currency into reais.

Currently, as a general rule, IOF/FX is levied at the rate of 0.38%. There are, however, a number of exceptions to such general rule (as provided by Article 15-A of Decree No. 6,306/07, as amended).

Foreign exchange transactions for the inflow of funds into Brazil in connection with investments made by foreign investors in the Brazilian financial and capital markets are generally subject to IOF/FX at a rate of 6%. Exceptionally, foreign exchange transactions for the inflow of funds in connection with certain types of investments made in those markets are currently subject to IOF/FX at a zero percent rate.

Among others, the following foreign exchange transactions in connection with investments made in the Brazilian financial and capital markets are subject to IOF/FX at a zero percent rate:

(a) foreign exchange transactions for the inflow of funds to be invested in variable/floating rate income investments (such as common shares or preferred shares) at stock exchanges or futures and commodities exchanges, as regulated by the National Monetary Council (e.g. Resolution No. 2,689), except for investments in derivatives that result in predetermined income;

(b) foreign exchange transactions for the inflow of funds for the acquisition of shares in public offerings registered or discharged from registration with the Brazilian Securities Commission, or subscriptions of shares, provided that, in both cases, the issuing companies are registered/listed to trade shares on the stock exchange; and

(c) foreign exchange transactions for the inflow of funds (including simultaneous (symbolic) FX transactions) for the acquisition of quotas of Private Equity Investment Funds ( FIPs ), Emerging Companies Investment Funds ( FIEEs ) and Investment Funds investing in quotas of FIPs and FIEEs, all set up in accordance with Brazilian Securities Commission's regulations.

(d) foreign exchange transactions for the inflow of funds resulting from the cancellation of depositary receipts, in exchange for shares traded in a Brazilian stock exchange;

(e) foreign exchange transactions for the inflow of funds deriving from a change on the type of registration of the foreign investment, from a foreign direct investment to an investment registered under the rules of the National Monetary Council (e.g. Resolution No. 2,689 investment).

Foreign exchange transactions for the outflow of funds in connection with the return of investments made in the Brazilian financial and capital markets are also subject to IOF/FX at a zero percent rate. The same rate applies on the outflow of funds in connection with payments of dividends and interest on shareholders' equity made by Brazilian companies.



Table of Contents

The Brazilian government is permitted to increase the rate of the IOF/FX at any time by up to 25%. However, any increase in rates will only apply to transactions carried out after this increase in rates enters into force.

Tax on Transactions Related to Bonds and Securities

Brazilian law imposes a Tax on Transactions Related to Bonds and Securities ( IOF/Bonds ) due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. Currently, IOF/Bonds are levied at the rate of 0% in most transactions involving common or preferred shares. Notwithstanding, IOF/Bonds is levied at the rate of 1.5% on the transfer of shares traded in Brazilian stock exchanges with the specific purpose of enabling the issuance of depositary receipts to be traded outside Brazil. The Brazilian government is allowed to increase the rate of the IOF/Bonds at any time by up to 1.5% per day of the transaction amount. However, any increase in rates may only apply to transactions carried out after this increase in rates enters into force.

Other Brazilian Taxes

There are no specific Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common or preferred shares or ADRs, except for gift and inheritance taxes that may be imposed by Brazilian states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common or preferred shares or ADRs.

United States Tax Considerations

U.S. Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relating to the purchase, ownership and disposition of Preferred Shares or Preferred ADRs by a U.S. holder (as defined below) holding such shares or ADRs as capital assets (generally, property held for investment). This summary is based on the Internal Revenue Code of 1986, as amended (the Code ), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the IRS ) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any state, local or non-U.S. tax law considerations, or any aspect of U.S. federal tax law other than income taxation. U.S. holders are urged to consult their own tax advisers regarding such matters.

This summary does not purport to address all material U.S. federal income tax consequences that may be relevant to a U.S. holder of a Preferred Share or Preferred ADR, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company's voting stock, investors that hold the Preferred Shares or Preferred ADRs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. holders whose functional currency is not the U.S. dollar)

may be subject to special tax rules.

As used herein, a "U.S. holder" is a beneficial owner of a Preferred Share or Preferred ADR that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity taxable as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. For purposes of this discussion, a "non-U.S. holder" is a beneficial owner of a Preferred Share or Preferred ADR that is not a U.S. holder or a partnership.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Preferred Share or Preferred ADR, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of a Preferred Share or Preferred ADR that is a partnership and partners in that partnership are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Preferred Shares or Preferred ADRs.

#### Nature of Preferred ADRs for U.S. Federal Income Tax Purposes

The following summary assumes that the representations contained in the deposit agreement among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners from time to time of ADSs issued

Table of Contents

thereunder are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, a holder of a Preferred ADR will be treated as the owner of the underlying Preferred Shares. Accordingly, except as specifically noted below, the tax consequences discussed below with respect to Preferred ADRs will be the same for Preferred Shares in the Company, and exchanges of Preferred Shares for Preferred ADRs, and Preferred ADRs for Preferred Shares, generally will not be subject to U.S. federal income tax.

For purposes of the following summary, any reference to Preferred Shares shall be understood to also include reference to the Preferred ADRs, unless otherwise noted.

Taxation of Distributions

U.S. holders

In general, subject to the passive foreign investment company ( PFIC ) rules discussed below, a distribution on a Preferred Share will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds the amount of the Company's current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder's tax basis in the Preferred Share on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. The Company does not intend to calculate its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution on a Preferred Share generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. For purposes of this discussion, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a Preferred Share (which will include the amount of any Brazilian taxes withheld) generally will be subject to U.S. federal income tax as foreign source dividend income and will not be eligible for the corporate dividends received deduction. In the case of a Preferred Share, but not a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day that the U.S. holder receives the dividend. In the case of a dividend received in respect of a Preferred ADR, the amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the date the Depositary receives it, whether or not the dividend is converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency generally will be treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the date they are received by a U.S. holder or the Depositary or its agent, as the case may be, the U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders are urged to consult their own tax advisers regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the Depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for hedged positions, any dividend that a non-corporate U.S. holder receives on a Preferred Share in a taxable year beginning before January 1, 2013 will be subject to a maximum tax rate of 15% if the dividend is a qualified dividend. A dividend on a Preferred Share will be a qualified dividend if (i) the Preferred Shares are readily tradable on an established securities market in the United States, (ii) the U.S. holder meets the holding period requirement for the Preferred Share (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date), and (iii) the Company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company ( PFIC ).

The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a preferred share will be treated as a qualified dividend, because the preferred shares themselves are not listed on a U.S. exchange. As discussed below under PFIC Rules, the Company does not believe that it was a PFIC for U.S. federal income tax purposes for its 2011 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. Given that the determination of PFIC status involves the application of complex tax rules, and that it is based on the nature of the Company's income and assets from time to time, no assurances can be provided that the Company will not be considered a PFIC for the current (or any past or future) taxable year.

The U.S. Treasury Department has announced its intention to promulgate detailed rules pursuant to which holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those detailed procedures have not yet been issued, it is not clear whether the Company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax for qualified dividends. U.S.

Table of Contents

holders of Preferred Shares are urged to consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend generally will constitute foreign source passive category income or, in the case of certain holders, general category income. A U.S. holder will be denied a foreign tax credit with respect to Brazilian income tax withheld from dividends received with respect to the underlying Preferred Shares to the extent the U.S. holder has not held the Preferred Shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent the U.S. holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the Preferred Shares are not counted toward meeting the 16-day holding period required by the statute. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers to determine whether and to what extent they will be entitled to foreign tax credits as well as with respect to the determination of the foreign tax credit limitation.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADRs are transferred may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADRs. Accordingly, the discussion above regarding the credibility of Brazilian withholding taxes could be affected by future actions that may be taken by the IRS.

Non-U.S. holders

A dividend paid to a non-U.S. holder on a Preferred Share will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

Taxation of Capital Gains

U.S. holders

Subject to the PFIC rules discussed below, on a sale or other taxable disposition of a Preferred Share, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's adjusted basis in the Preferred Share and the amount realized on the sale or other taxable disposition, each determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition the Preferred Share has been held for more than one year. In general, any adjusted net capital gain of a non-corporate U.S. holder in a taxable year beginning before January 1, 2013 is subject to a maximum tax rate of 15%. In subsequent years, the maximum tax rate on the net capital gain of a non-corporate U.S. holder may be higher. The deductibility of capital losses is subject to limitations.

Any gain a U.S. holder recognizes generally will be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Brazilian tax is withheld on a sale or other disposition of a Preferred Share, the amount realized will include the gross amount of the proceeds of that sale or other disposition before deduction of the Brazilian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes generally precludes a U.S. holder from obtaining a foreign tax credit for any Brazilian income tax withheld on a sale of a Preferred Share. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers regarding the application of such rules.

#### Non-U.S. holders

A non-U.S. holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposition of a Preferred Share unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States), or (ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other taxable disposition and certain other conditions apply. Any effectively connected gain of a corporate non-

Table of Contents

U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

PFIC Rules

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. Based on the Company's audited financial statements and relevant market and shareholder data, as well as the Company's current and projected income, assets and activities, the Company believes it was not a PFIC for U.S. federal income tax purposes for its 2011 taxable year, nor does it anticipate being classified as a PFIC in its current taxable year or future taxable years. However, because the determination of whether the Company is a PFIC is based upon the composition of its income and assets from time to time, and because there are uncertainties in the application of the relevant rules, it is possible that the Company will become a PFIC in a future taxable year (and no assurance can be provided that the Company will not be considered a PFIC for its current (or any past) taxable year).

If the Preferred Shares were shares of a PFIC for any taxable year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of ordinary income treatment for gains or excess distributions (generally a distribution in excess of 125% of the average distributions received during the past three years or, if shorter, the U.S. holder's holding period) that would otherwise be taxed as capital gains or dividends, along with an interest charge on gains or excess distributions allocable to prior years in the U.S. holder's holding period during which the Company was determined to be a PFIC. If the Company is deemed to be a PFIC for a taxable year, dividends on a Preferred Share would not constitute qualified dividends subject to preferential rates of U.S. federal income taxation. In addition, if the Company is deemed to be a PFIC for a taxable year, U.S. holders would be subject to increased reporting requirements. U.S. holders are urged to consult their own tax advisers regarding the application of the PFIC rules.

Information Reporting and Backup Withholding

Under U.S. federal income tax law and the Treasury regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on U.S. holders that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. holders may be subject to these reporting requirements unless their Preferred Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. holders should consult with their own tax advisers regarding the requirements of filing information returns, and, if applicable, filing obligations relating to the PFIC rules.

Dividends paid on, and proceeds from the sale or other taxable disposition of, a Preferred Share to a U.S. holder generally may be subject to information reporting requirements and may be subject to backup withholding (currently at the rate of 28%) unless the U.S. holder provides an accurate taxpayer identification number or otherwise demonstrates that it is exempt. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is timely submitted to the IRS. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at [www.sec.gov](http://www.sec.gov). The Company's filings are also available to the public through the Internet at Gerdau's website at [www.gerdau.com](http://www.gerdau.com). Such filings and other information on its website are not incorporated by reference in this Annual Report. Interested parties may request a copy of this filing, and any other report, at no cost, by writing to the Company at the following address: Av. Farrapos, 1811 - Porto Alegre-RS - 90.220-005 - Brazil or calling 55-51-3323 2703 or by e-mail at [inform@gerdau.com.br](mailto:inform@gerdau.com.br). In



Table of Contents

compliance with New York Stock Exchange Corporate Governance Rule 303A.11, the Company provides on its website a summary of the differences between its corporate governance practices and those of U.S. domestic companies under the New York Stock Exchange listing standards.

**I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK**

Gerdau is exposed to various market risks, mainly variations in exchange rates and interest rate volatility. The company enters into derivatives and other financial instruments to manage and reduce the impact of fluctuations in interest rates and in the exchange rates. Gerdau has established policies and procedures for risk assessment and the approval, reporting and monitoring of its derivative financial activities. Gerdau does not carry out leveraged operations involving derivative instruments. The use of derivatives is limited to managing the foreign-exchange exposure of the cash flow generated by the Company's operations, as well as interest rate swaps.

**Foreign 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.

Gerdau is exposed to fluctuations in the exchange rate of several different currencies movements since substantially all of its revenues generated outside its subsidiaries in the United States, are in the local currency of the respective subsidiaries, mainly in Brazilian *reals*, while a significant portion of its debt is denominated in or indexed to U.S. dollar.

The Company's estimate of the fair value of its financial instruments, including long-term debt, approximates to their recognized book value.

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 Consolidated Interim Financial Statements. As of December 31, 2010, the Company is mainly exposed to variations between Brazilian real and US Dollar, since the loans taken by the other than Brazilian subsidiaries of

the Company are mainly in the same currency of the functional currency of each subsidiary, and because of this aspect, these loans do not expose the Company to variations in foreign currency. The impact calculated considering such variation in the foreign exchange rate totals R\$ 51,594 as of December 31, 2011 (R\$ 88,535 as of December 31, 2010) and represents an income if an appreciation of the Brazilian real against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian real against the US Dollar. The Company believes that the Dollar depreciation against Real for 2012 will be 5%.

The net amounts related to accounts receivable and accounts payable in foreign currency do not present relevant risks related to exchange rates fluctuation.

**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.

From time to time, the Company has entered into interest rate swaps in order to reduce interest rate risk and interest expense. The Company makes only limited use of derivative instruments and only for non-speculative purposes, in order to manage well-defined interest rate risks arising during the normal course of its business.

Table of Contents

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 Consolidated Interim Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 74,285 as of December 31, 2011 (R\$ 77,516 as of December 31, 2010) and would impact the Financial expenses account in the Consolidated Statements of Income.

**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.

**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 (Shareholders' Equity, retained earnings, and profit reserves) based on internal policies and benchmarks. The BSC (Balance Scorecard) methodology was used in the last 5 years to elaborate strategic maps with objectives and indicators of the main processes. The KPI's (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/Shareholders' Equity Ratio. The Total Debt is composed of loans and financing (see Note 13 Consolidated Financial Statements) and debentures (see Note 14 - Consolidated Financial Statements). 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.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. DEBT SECURITIES**

Not applicable.

**B. WARRANTS AND RIGHTS**

Not applicable.

**C. OTHER SECURITIES**

Not applicable.

**D. AMERICAN DEPOSITARY SHARES**

The Bank of New York Mellon, as depositary, has agreed to reimburse the Company for expenses it incurs that are related to the establishment and maintenance of the ADS program. The depositary has agreed to reimburse the Company for its continuing and annual stock exchange listing fees. It has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, and to reimburse the Company annually for certain investor relations programs or

Table of Contents

special promotional activities. In certain instances, the depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors. During calendar year 2011, the depositary reimbursed the Company in the amount of US\$ 2.8 million.

The depositary collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them.

The fees that ADR holders may be required to pay or incur are the following:

Issuance and delivery of ADRs, including in connection with share distributions, stock splits and other corporate actions	\$0.02 or less per ADR
Depositary services	\$0.02 or less per ADR
Withdrawal of shares underlying ADRs	\$5.00 or less per 100 ADRs
Cash distributions	\$0.02 or less per ADR

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure control and procedures**

The Company has carried out an evaluation of the effectiveness of the design and operations to assurance the objectives achievement of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934) under the supervision of its management, which is responsible for the management of the internal controls, and includes its Chief Executive Officer and Chief Financial Officer. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the control system's objectives will be met. Therefore, based upon the Company's evaluation as of December, 31th of 2011, the Company's management concluded that the design and operation of the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Gerdau S.A. has a Disclosure Committee composed of the Chief Executive Officer, André Bier Gerdau Johannpeter, the Chief Financial Officer and Investor Relations Executive Officer, Osvaldo Burgos Schirmer, the Executive Vice President, Legal and Compliance, Expedito Luz, the Accounting Director, Geraldo Toffanello, the Financial Director, Harley Scardoelli and the Corporate Communication & Public Affairs Director, Renato Gasparetto Junior. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

No changes in the Company's internal controls over Financial Reporting occurred during the period covered by this report that materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Table of Contents

In addition, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Please see Exhibit 12.01 and 12.02 for the certifications required by this Item.

**Management's Annual Report on Internal Controls over Financial Reporting**

The management of Gerdau S.A. is responsible for the implementation, effectiveness and maintenance of an effective system of internal control over the Consolidated Financial Statements as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control is a process designed to provide reasonable assurance regarding the reliability and the preparation of the Consolidated Financial Statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over Consolidated Financial Statements as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, Management concluded that, as of December 31, 2011, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm during 2011, Deloitte Touche Tohmatsu Auditores Independentes, has issued an audit report on the effectiveness of the Company's internal control over the financial statements. That report is included herein.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Gerdau S.A.

Rio de Janeiro, Brazil

We have audited the internal control over financial reporting of Gerdau S.A. and subsidiaries (the Company) as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Table of Contents

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated March 27, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte Touche Tohmatsu  
Deloitte Touche Tohmatsu Auditores Independentes  
Porto Alegre, Brazil  
March 27, 2012

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Bolívar Charneski, a member of its Board of Auditors, is a financial expert and independent within the meaning of the SEC rules applicable to disclosure of such expertise.

**ITEM 16B. CODE OF ETHICS**

In the last fiscal year, Gerdau S.A. integrated its three previous codes - Gerdau Ethical Guidelines, Gerdau Ameristeel's Code of Ethics and Business Conduct and Gerdau Ameristeel Code of Ethics for Senior Executives into one single Code of Ethics applicable to all of Gerdau's business units around the world.

The provisions of the Code are thus binding on Gerdau's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and other persons performing similar functions.

The new Code of Ethics is focused on the ethics and compliance issues most important to a publicly-held company and meets all applicable legal requirements.

## Edgar Filing: GERDAU S.A. - Form 20-F

The code is organized according to the Company's values which are: (a) Be the Customer's choice, (b) Safety above all, (c) Respected, engaged and fulfilled Employees, (d) Pursuing excellence with simplicity, (e) Focus on results, (f) Integrity with all stakeholders and, (g) Economic, social and environmental sustainability.

The code instructs all employees to follow a number of steps when reporting violations. The company has implemented an Ethics Helpline to which all employees may refer in the case of any violations of the code.

The purpose and the contents of this new Code of Ethics have been made public to all employees and have been the object of in-company training.

In the same manner as the three previous codes mentioned in the first paragraph, this new Code of Ethics meets the definition contemplated by applicable SEC and New York Stock Exchange rules, covering wrongdoing related to business conduct, conflicts of interest, disclosure in reports and other documents, as well as compliance with legislation.

The Gerdau Code of Ethics is filed herewith as exhibit 11.01 and also may be accessed through our Internet website ([www.gerdau.com](http://www.gerdau.com)).

The Company did not grant any waiver from the Code provisions in the last fiscal year.

### **ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table provides information on fees billed to Gerdau for professional services rendered by the external auditors responsible for auditing the financial statements included in this Annual Report (in thousands of Brazilian Reais) which were Deloitte Touche Tohmatsu Auditores Independentes for the year ended December 31, 2011 and December 31, 2010:

Table of Contents

	2011	2010
Audit fees	10,711	8,999
Audit-related fees	133	117
All other fees	82	209
<b>Total</b>	<b>10,926</b>	<b>9,325</b>

Audit fees are related to professional services rendered in the auditing of Gerdau's consolidated financial statements, quarterly reviews of Gerdau's consolidated financial statements and statutory audits and interim reviews of certain of the Company's subsidiaries and affiliates as required by the appropriate legislation. Those amounts also include fees related to the audit of internal controls over financial reporting of Gerdau and of Gerdau Ameristeel.

Audit-related fees are for assurance and related services, such as due diligence services traditionally performed by an external auditor related to acquisitions, as well as consulting on accounting standards and transactions.

Other fees are related to services provided to subsidiaries in Europe (relating to tax compliance) and to subsidiaries in North America (tax services).

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

On April 28, 2005, the Company elected its Board of Auditors duly adapted to ensure compliance with the Sarbanes-Oxley Act requirements and exemptions from the listing standards. The Board of Auditors ( Conselho Fiscal ) has been operating in accordance with Brazilian Corporate Law 6,404/76, since April 2000. The customary role of this board is to monitor and verify the actions of company directors and executive officers and the compliance with their legal duties, providing opinions and official statements on the annual management report and the proposals of members of the Board of Directors, denouncing errors or fraud, calling meetings whenever necessary and analyzing financial statements. In establishing a permanent Board of Auditors, the Company has availed itself of paragraph (c)(3) of Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements for a foreign private issuer (such as the Company) with a board of auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, the Company needs only to comply with the requirement that the audit committee, or Board of Auditors in its case, meet the SEC rules regarding audit committees for listed companies. The Brazilian Corporate Law requires companies to have a non-permanent Board of Auditors composed of three to five members who are elected by the shareholders at the Ordinary General Meeting of Shareholders. The Board of Auditors operates independently from management and from a company's external auditors. Its main function is to monitor the activities of the management of the company, examine the financial statements of each fiscal year and provide a formal report to its shareholders.

The Company has a permanent Conselho Fiscal that consists of three up to five members and three up to five alternates and which has ordinary meetings every two months. The members of the Gerdau S.A.'s Conselho Fiscal are all financially literate and one member has accounting

## Edgar Filing: GERDAU S.A. - Form 20-F

expertise that qualifies him as an audit committee financial expert. Gerdau S.A. believes that its Board of Auditors, as modified, meets the requirements for the exemption available to foreign private issuers under the SEC rules regarding audit committees of listed companies. In addition, the Board of Auditors operates under a written charter that is in the process of being amended and which the Gerdau S.A. believes meets the NYSE's requirements for audit committee charters. The Board of Auditors is not the equivalent of, or wholly comparable to, a U.S. audit committee. Among other differences, it is not required to meet the standards of independence established in Rule 10A-3 and is not fully empowered to act on matters that are required by Rule 10A-3 to be within the scope of an audit committee's authority. Nonetheless, with the duties that have been provided to the Board of Auditors to the extent permitted by Brazilian law, Gerdau S.A. believes that its current corporate governance system, taken as a whole, including the ability of the Board of Auditors to consult internal and external experts, is fully equivalent to a system having an audit committee functioning as a committee of its Board of Directors. For a further discussion of its Board of Auditors, see Item 6C. Board Practices Board of Auditors .

The Board of Auditors members are elected at the Ordinary Shareholders Meeting for one-year terms. They are eligible for reelection. In Gerdau S.A. the Board of Auditors consists of three members and three alternates. In Metalúrgica Gerdau S.A. the minority and preferred shareholders elected two of the current effective five members. As required by Brazilian law, members of the Board of Auditors must have college graduation or held office for at least

Table of Contents

three years as business administrators or as members of boards of auditors. The Board of Auditors, at the request of any of its members, may ask the external auditors to provide explanations or information and to investigate specific facts.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On August 26, 2009, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 500,000 preferred shares, representing approximately 0.08% of outstanding preferred stock, which totaled 622,428,013 preferred shares on July 30, 2009.

The Board of Director's authorization remained in force for 10 days from the above date of its approval, ending on September 10, 2009. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários

**Purchases by the Issuer of Equity Securities**

	Total Number of Shares Purchased	Average Price Paid per Share (in R\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
<b>August</b> (08/26/2009 - 08/31/2009)	168,000	21.94	33.6%	332,000
<b>September</b> (09/01/2009 - 09/10/2009)	332,000	22.24	66.4%	
<b>TOTAL</b>	<b>500,000</b>	<b>22.14</b>	<b>100%</b>	

On January 25, 2010, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 1,200,000 preferred shares, representing approximately 0.19% of outstanding preferred stock, which totaled 622,121,522 preferred shares on December 31, 2009.

Edgar Filing: GERDAU S.A. - Form 20-F

The Board of Director s authorization remained in force for 10 days from the above date of its approval, ending on February 3, 2010. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários

Table of Contents**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>January</b> (01/25/2010 01/31/2010)	1,200,000	25.99	100%	
<b>TOTAL</b>	<b>1,200,000</b>	<b>25.99</b>	<b>100%</b>	

On February 26, 2010, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 500,000 preferred shares, representing approximately 0.08% of outstanding preferred stock, which totaled 621,230,171 preferred shares on January 31, 2010.

The Board of Director's authorization remained in force for 5 days from March 1, 2010 to March 5, 2010. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Itaú Corretora de Valores S.A.

**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>March</b> (03/01/2010 03/05/2010)	500,000	26.83	100%	
<b>TOTAL</b>	<b>500,000</b>	<b>26.83</b>	<b>100%</b>	

On February 2nd, 2011, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

## Edgar Filing: GERDAU S.A. - Form 20-F

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 3,100,000 preferred shares, representing approximately 0.43% of outstanding preferred stock, which totaled 725,509,986 preferred shares on December 31, 2010.

The Board of Director's authorization remained in force for 10 days from February 2nd, 2011 to February 11th, 2011. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Itaú Corretora de Valores S.A.
- Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários
- Bradesco S.A. Corretora de Títulos e Valores Mobiliários
- Corretora JP Morgan S.A.



Table of Contents**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>February</b> (02/02/2011 02/11/2011)	3,100,000	22.65	100%	
<b>TOTAL</b>	<b>3,100,000</b>	<b>22.65</b>	<b>100%</b>	

On August 19th, 2011, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 1,000,000 preferred shares, representing approximately 0.12% of outstanding preferred stock, which totaled 853,783,892 preferred shares on July 31, 2011.

The Board of Director's authorization remained in force for 5 days from August 22th, 2011 to August 26th, 2011. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Merrill Lynch Pierce Fenner and Smith Inc.

**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>August</b> (08/22/2011 08/26/2011)	1,000,000	13.00	100%	
<b>TOTAL</b>	<b>1,000,000</b>	<b>13.00</b>	<b>100%</b>	

On January 11th, 2012, the Board of Directors of Gerdaul S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Securities and Exchange Commission of Brazil (CVM), resolving to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company's Long Term Incentive Program.

## Edgar Filing: GERDAU S.A. - Form 20-F

These acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 2,693,000 preferred shares, of which 1,393,000 shall be in the form of American Depositary Receipts ADRs, representing approximately 0.31% of the preferred-share free float, which totaled 865,417,985 shares on December 31, 2011.

The Board of Director s authorization remained in force for 9 days from January 12th, 2011 to January 20th, 2012. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following broker:

- Merrill Lynch Pierce Fenner and Smith Inc.
- Itaú Corretora de Valores S.A.
- Bradesco S.A. Corretora de Títulos e Valores Mobiliários

Table of Contents**Purchases by the Issuer of Equity Securities**

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (in R\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs</b>
<b>January</b> (01/12/2012 01/20/2012)	2,693,000	16.68	100%	
<b>TOTAL</b>	<b>2,693,000</b>	<b>16.68</b>	<b>100%</b>	

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

In accordance with Rule 549/08 of the CVM (Brazilian Securities and Exchange Commission) that requires auditor rotation in the ordinary course of 5 years, PricewaterhouseCoopers Auditores Independentes ( PwC ) replaced Deloitte Touche Tohmatsu Auditores Independentes ( Deloitte ) as our independent registered public accounting firm for the fiscal years starting January 1, 2012. The change in auditors was made pursuant to this Rule that limits the consecutive terms that certain service providers may serve. Because of the limitations set forth in this Rule, we did not seek to renew Deloitte's contract when it expired and Deloitte could not attempt to stand for reelection. The replacement of Deloitte by PwC was approved by our Board of Directors and Audit Committee on December 9, 2011. Deloitte is engaged as our auditor for the fiscal year ended December 31, 2011 until the filing of this Form 20-F with the U.S. Securities and Exchange Commission.

Deloitte audited our financial statements for the fiscal years ended December 31, 2011 and December 31, 2010. None of the reports of Deloitte on our financial statements for either of such fiscal years contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles. During these years and until its contract expired, there were no disagreements with Deloitte, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to Deloitte's satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with any reports it would have issued, and there were no reportable events as that term is defined in Item 16F(a)(1)(v) of Form 20-F and Item 304(a)(1)(v) of Regulation S-K. Deloitte did not audit, or performed a review of, any of our financial statements for any period subsequent to December 31, 2011.

We have provided Deloitte with a copy of the foregoing disclosure, and have requested that they furnish us with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with such disclosure. We are including as Exhibit 15.1 to this Form 20-F a copy of the letter from Deloitte as required by Item 16F(a)(3) of Form 20-F.

During the fiscal years ended December 31, 2011 and December 31, 2010, we did not consult with PwC regarding the application of accounting principles to a specific completed or contemplated transaction or regarding the type of audit opinion that might be rendered by PwC on our financial statements. Further, PwC did not provide any written or oral advice that was an important factor considered by us in reaching a decision as to any such accounting, auditing or financial reporting or any matter being the subject of disagreement or reportable event or any other matter as defined in Item 16F(a)(2) of Form 20-F and Item 304(a)(2) of Regulation S-K.

**ITEM 16G. CORPORATE GOVERNANCE**

Under the Corporate Governance Rules of the New York Stock Exchange, currently in effect, Gerdau S.A. is required to disclose any significant ways in which its corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standard. These significant differences are summarized below.

The Company is permitted to follow practice in Brazil in lieu of the provisions of the Corporate Governance Rules, except that are required to avail itself of an appropriate exemption to the requirement to have a qualifying audit committee under Section 303A.06 of the Rules and its Chief Executive Officer is obligated, under Section 303A.12(b), to promptly notify the NYSE in writing after any of its executive officers becomes aware of any material non-compliance with any applicable provisions of the Corporate Governance Rules.

Majority of Independent Directors: Under NYSE Rule 303A.01 domestic listed companies must have a majority of independent directors. The Company does not have a similar requirement under Brazilian practice and does not have a majority of independent directors serving on its board of directors, even though the majority of the members are non-management directors.

Table of Contents

Separate meetings of non-management directors: Under NYSE Rule 303A.03, the non-management directors of each domestic listed company must meet at regularly scheduled executive sessions without management. Gerdau does not have a similar requirement under Brazilian practice, but non-management directors meet separately once a year to assess management performance.

Nominating/corporate governance committee: Under NYSE Rule 303A.04, a domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. While the Company is not required to have such a committee under Brazilian law, it has a Corporate Governance Committee that is composed by a majority of independent directors. The purpose of this Committee is to provide its views to the board in respect of the best practices in Corporate Governance.

Compensation Committee: Under NYSE Rule 303A.05, a domestic listed company must have a compensation committee composed entirely of independent directors. Gerdau is not required to have such a committee under Brazilian practice. It has established a Remuneration and Succession Committee to advise the full Board on employee and executive compensation and recruitment, incentive-compensation plans and related matters, but such committee does not have a separate charter and is composed by a majority of independent directors. Its full Board of Directors otherwise is directly responsible for employee and executive compensation and recruitment, incentive-compensation and related matters.

Audit Committee: Under NYSE Rule 303A.06 and the requirements of Rule 10A-3 of the Securities and Exchange Commission, domestic listed companies are required to have an audit committee consisting entirely of independent directors that otherwise complies with Rule 10A-3. In addition, the audit committee must have a written charter that addresses the matters outlined in NYSE Rule 303A.06(c), has an internal audit function and otherwise fulfills the requirements of the NYSE and Rule 10A-3. There is no requirement for an audit committee under Brazilian law and there are features of Brazilian law that require adaptation of the independent audit committee rule to local practice, as permitted by NYSE Rule 303A.06 and Rule 10A-3. Gerdau has a board of auditors (conselho fiscal) that currently performs certain of the functions prescribed for the audit committee, although the scope of its duties is not entirely compatible with the requirements of U.S. law and the NYSE rules. The company has adapted its corporate governance practices and the functions of the board of auditors (with certain limitations due to Brazilian corporate law that qualify for an exemption as authorized by the SEC) to assure compliance with the requirements of the NYSE Rule and Rule 10A-3. See Item 6C. Board Practices Board of Auditors and Item 16D. Exemption from the Listing Standards for Audit Committees.

Equity Compensation Plans: Under NYSE Rule 303A.08, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. The General Shareholders' meeting held on April 30, 2003 approved the establishment by the Board of a stock option plan for executives. Any material changes to such plan, or a new or different plan if established, would require the favorable vote of holders of the common shares of the Company. Holders of preferred shares, including holders of Gerdau's ADSs, would not have the opportunity to vote on such a plan or any revisions thereto.

Corporate governance guidelines: Under NYSE Rule 303A.09, domestic listed companies must adopt and disclose their corporate governance guidelines. Gerdau does not have a similar requirement under Brazilian law, although it does establish operating principles for its executive management and it observes the requirements of Instruction 358 of the Brazilian Securities Commission (CVM) concerning trading in its shares. In addition, it has adhered to the Level I listing standards of the BOVESPA.

Code of Business Conduct and Ethics: Under NYSE Rule 303A.10, domestic listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. Gerdau has a similar requirement under Brazilian law and it has adopted a code of ethics that applies to its directors, officers and employees.

## Edgar Filing: GERDAU S.A. - Form 20-F

For more information regarding the Code of Ethics please see item 16B. Code of Ethics.

Further information concerning Gerdau's corporate governance practices and applicable Brazilian law is available on the Company's website, in its submissions to the U.S. Securities and Exchange Commission. The Company has also voluntarily adhered to the Level I listing standards of the Sao Paulo Stock Exchange (BOVESPA) on which its shares are traded, which impose heightened standards of disclosure, transparency and corporate governance on Gerdau.

### **PART III**

#### **ITEM 17. FINANCIAL STATEMENTS**

The Company has responded to Item 18 in lieu of responding to this item.

Table of Contents

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

**ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS**

**(a) Financial Statements**

	<b>Page</b>
<u>Report of independent registered public accounting firm</u>	F-2
<u>Consolidated balance sheets on December 31, 2011 and 2010</u>	F-3
<u>Consolidated statements of comprehensive income for the years ended December 31, 2011, 2010 and 2009</u>	F-6
Consolidated statements of recognized income and expense for the years ended December 31, 2011, 2010 and 2009	
<u>Consolidated statement of cash flow for the years ended December 31, 2011, 2010 and 2009</u>	F-8
<u>Notes to consolidated financial statements for the years ended December 31, 2011, 2010 and 2009</u>	F-9

**(b) List of Exhibits**

- 1.01 Bylaws of Gerdau S.A.
- 2.(a)(1) Corporate Governance Level 1 BOVESPA
- 2.(a)(2) Deposit Agreement dated September 18, 1997, as amended and restated on March 8, 1999, and as further amended and restated on May 7, 2003, and on December 2, 2008, among the Company, The Bank of New York as Depository and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued thereunder. \*
- 2(b)(1) The Company agrees to furnish to the Commission upon its request any instrument relating to long-term debt issued by the Company or any subsidiary where the total amount of securities authorized under that instrument does not exceed 10% of the Company's consolidated assets.
- 4.01 Policies of the Stock Option Plan\*\*
- 4.02 Gerdau SA Equity Incentive Plan, Equity Ownership Plan and Long-Term Incentive Plan (for Gerdau Ameristeel)\*\*\*
- 4.03 Gerdau Special Steel North America Equity Incentive Plan\*\*\*\*
- 11.01 Code of Ethics

Edgar Filing: GERDAU S.A. - Form 20-F

- 12.01 Certification of the Chief Executive Officer under Item 15
- 12.02 Certification of the Chief Financial Officer under Item 15
- 13.01 Certification pursuant to 18 U.S.C. Section 1350
- 13.02 Certification pursuant to 18 U.S.C. Section 1350
- 15.01 Change in Registrant's Certifying Accountant
- 23.01 Consent of Independent Registered Public Accounting Firm

---

\* Incorporated by reference to the Company's Registration Statement on Form F-6 (File No. 333-9896), filed with the Securities and Exchange Commission on November 18, 2008.



Table of Contents

\*\*Incorporated by reference to Exhibit 4.02 to the Company's Annual Report on Form 20-F (File No 001-14878), filed with the Securities and Exchange Commission on June 2, 2011)

\*\*\* Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-171217) filed with the Securities and Exchange Commission on December 16, 2010.

\*\*\*\* Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-179182) filed with the Securities and Exchange Commission on January 26, 2012.

This certification will not be deemed filed for purposes of Section 18 of the Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

Table of Contents

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**GERDAU S.A.**

By: /s/ André Bier Gerdau Johannpeter

Name: André Bier Johannpeter

Title: Chief Executive Officer

By: /s/ Osvaldo Burgos Schirmer

Name: Osvaldo Burgos Schirmer

Title: Chief Financial Officer

Dated: April 20, 2012

**GERDAU S.A.**

Consolidated financial statements

as of December 31, 2011 and 2010

and for each of the three years in the period

ended December 31, 2011

prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board IASB

and Report of Independent Registered Public Accounting Firm

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Gerdau S.A.

Rio de Janeiro, Brazil

We have audited the accompanying consolidated balance sheets of Gerdau S.A. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Gerdau S.A. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu Auditores Independentes

Porto Alegre, Brazil

March 27, 2012

## GERDAU S.A.

## CONSOLIDATED BALANCE SHEETS

as of December 31, 2011 and 2010

In thousands of Brazilian reais (R\$)

	Note	2011	2010
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,476,599	1,061,034
Short-term investments			
Held for Trading	4	3,095,359	1,105,902
Available for sale	4	6,290	9,559
Trade accounts receivable - net	5	3,602,748	3,153,027
Inventories	6	8,059,427	6,797,785
Tax credits	7	815,983	586,056
Unrealized gains on financial instruments	15	140	783
Other current assets		262,603	231,798
		17,319,149	12,945,944
<b>NON-CURRENT ASSETS</b>			
Long-term investments	4		26,797
Tax credits	7	389,035	401,222
Deferred income taxes	8	1,547,967	1,579,011
Related parties	18	111,955	35,037
Unrealized gains on financial instruments	15		5,529
Judicial deposits	17	713,480	493,502
Other non-current assets		201,989	177,143
Prepaid pension cost	19	533,740	437,072
Advance for capital increase in jointly-controlled entity	10	65,254	
Investments in associates and jointly-controlled entities	10	1,355,291	1,264,520
Other investments		19,366	19,002
Goodwill	11	9,155,789	8,158,098
Other Intangibles	12	1,273,708	1,176,823
Property, plant and equipment, net	9	17,295,071	16,171,560
		32,662,645	29,945,316
<b>TOTAL ASSETS</b>		49,981,794	42,891,260

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

## GERDAU S.A.

## CONSOLIDATED BALANCE SHEETS

as of December 31, 2011 and 2010

In thousands of Brazilian reais (R\$)

	Note	2011	2010
<b>CURRENT LIABILITIES</b>			
Trade accounts payable		3,212,163	1,783,274
Short-term debt	13	1,715,305	1,577,968
Debentures	14	41,688	115,069
Taxes payable	16	591,983	524,967
Payroll and related liabilities		617,432	475,237
Dividends payable	21	136,391	90,289
Unrealized losses on financial instruments	20	314	
Environmental liabilities	15	31,798	29,191
Other current liabilities		429,927	425,905
		6,777,001	5,021,900
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	13	11,182,290	12,360,056
Debentures	14	744,245	616,902
Related parties	18	6	722
Deferred income taxes	8	1,858,725	2,270,849
Unrealized losses on financial instruments	15	5,013	92,476
Provision for tax, civil and labor liabilities	17	907,718	645,375
Environmental liabilities	20	36,621	42,902
Employee benefits	19	1,089,784	834,471
Put options on non-controlling interest	15.f	533,544	516,706
Other non-current liabilities		327,044	341,286
		16,684,990	17,721,745
<b>EQUITY</b>			
	22		
Capital		19,249,181	15,651,352
Treasury stocks		(237,199)	(161,405)
Legal reserve		407,615	307,329
Stock option		36,339	22,700
Other reserves		(701,399)	(1,884,002)
Retained earnings		6,242,932	5,534,468
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		24,997,469	19,470,442
<b>NON-CONTROLLING INTERESTS</b>		1,522,334	677,173
<b>EQUITY</b>		26,519,803	20,147,615
<b>TOTAL LIABILITIES AND EQUITY</b>		49,981,794	42,891,260

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



## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2011, 2010 and 2009

In thousands of Brazilian reais (R\$)

	Note	2011	2010	2009
<b>NET SALES</b>	23	35,406,780	31,393,209	26,540,050
Cost of sales	28	(30,298,232)	(25,873,476)	(22,305,550)
<b>GROSS PROFIT</b>		5,108,548	5,519,733	4,234,500
Selling expenses	28	(603,747)	(551,547)	(429,612)
General and administrative expenses	28	(1,797,937)	(1,805,914)	(1,714,494)
Reversal of impairment (impairment) of assets	27		336,346	(1,072,190)
Restructuring costs				(150,707)
Other operating income	28	195,015	207,320	190,157
Other operating expenses	28	(85,533)	(100,840)	(101,810)
Equity in earnings of unconsolidated companies	10	62,662	39,454	(108,957)
<b>INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES</b>		2,879,008	3,644,552	846,887
Financial income	29	455,802	295,563	436,236
Financial expenses	29	(970,457)	(1,097,633)	(1,286,368)
Exchange variations, net	29	51,757	104,364	1,060,883
Gain and losses on financial instruments, net	29	(65,438)	12,392	(26,178)
<b>INCOME BEFORE TAXES</b>		2,350,672	2,959,238	1,031,460
Income and social contribution taxes				
Current	8	(519,843)	(642,306)	(303,272)
Deferred	8	266,747	140,447	276,320
<b>NET INCOME</b>		2,097,576	2,457,379	1,004,508
<b>ATTRIBUTABLE TO:</b>				
Owners of the parent		2,005,727	2,142,488	1,121,966
Non-controlling interests		91,849	314,891	(117,458)
		2,097,576	2,457,379	1,004,508
Basic earnings per share - preferred and common	22	1.22	1.50	0.79
Diluted earnings per share - preferred and common	22	1.22	1.50	0.79

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





## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2011, 2010 and 2009

In thousands of Brazilian reais (R\$)

	2011	2010	2009
<b>Net income for the year</b>	2,097,576	2,457,379	1,004,508
<b>Other comprehensive income</b>			
Net unrealized (Losses) Gains on defined benefit pension plan, gross of tax of R\$ (64,847), R\$ (81,813) and R\$ 6,565, respectively	(234,647)	(259,637)	16,244
Other comprehensive income from associates and jointly-controlled entities	107,534	(17,724)	(373,719)
Cumulative translation adjustment	1,806,947	(613,472)	(4,185,285)
Unrealized (Losses) Gains on net investment hedge, gross of tax of R\$ (71,843), R\$ 0 and R\$ 0.	(788,007)	130,750	893,700
<b>Cash flow hedges</b>			
Unrealized (Losses) Gains, gross of tax of R\$ (8,530), R\$ (24,545) and R\$ 69,745, respectively	(22,156)	(75,532)	257,537
Reduced by: reclassification adjustments of gains included in net income, gross of tax of R\$ 29,970, R\$ 13,226 and R\$ (16,188), respectively	77,844	55,688	47,217
Unrealized (Losses) Gains on available for sale securities, gross of tax of R\$ (499), R\$ 392 and R\$ 5,929, respectively	(1,513)	1,153	17,966
Income tax relating to components of other comprehensive income	115,749	92,740	(66,051)
<b>Total comprehensive income (loss) for the year, net of tax</b>	3,159,327	1,762,874	(2,490,829)
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the parent	3,023,414	1,427,440	(1,295,269)
Non-controlling interests	135,913	335,434	(1,195,560)
	3,159,327	1,762,874	(2,490,829)

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

GERDAU S.A.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2011, 2010 and 2009

in thousands of Brazilian reais (R\$)

	Attributed to parent company's interest					Other reserves		Gains and losses on derivatives	Cumulative translation adjustment	Total parent company's interest	Non-controlling interests
	Capital	Treasury stocks	Legal reserve	Stock options	Retained earnings	Gains and losses on sale securities	Gains and losses on net investment hedge				
<b>Balance as of January 1, 2009</b>	14,184,805	(122,820)	144,062	1,426	4,841,602	(9,452)	(634,050)	(117,063)	1,877,992	20,166,502	4,877,000
<b>2009 Changes in Equity</b>											
Net income					1,121,966					1,121,966	(117,400)
Other comprehensive income recognized in the year					40,107	11,404	893,700	94,916	(3,457,362)	(2,417,235)	(1,078,100)
Total comprehensive income recognized in the year					1,162,073	11,404	893,700	94,916	(3,457,362)	(1,295,269)	(1,195,500)
Stock option expenses recognized in the year				10,001						10,001	
Stock option exercised during the year		11,054		(2,409)						8,645	
Gain in treasury stock sellings					782					782	
Dividends/interest on capital					(419,066)					(419,066)	(186,200)
Destinations proposed to the general assembly			56,143		(56,143)						
Non-controlling interest on consolidated entities					17,533					17,533	(31,300)
Effect of the IAS 29 (Financial Reporting in Hyperinflationary Economies) adoption					31,264					31,264	6,000
Put options											32,700
Treasury stocks		(12,919)								(12,919)	
<b>Balance as of December 31, 2009</b>	14,184,805	(124,685)	200,205	9,018	5,578,045	1,952	259,650	(22,147)	(1,579,370)	18,507,473	3,497,300

Edgar Filing: GERDAU S.A. - Form 20-F

**2010 Changes in Equity**

Net income					2,142,488					2,142,488	314,891
Other comprehensive income recognized in the year					(170,961)	754	130,750	(11,586)	(664,005)	(715,048)	20,542
Total comprehensive income recognized in the year					1,971,527	754	130,750	(11,586)	(664,005)	1,427,440	335,434
Capital increase by issuance of shares	1,466,547									1,466,547	
Effects of interest increase in subsidiaries					(1,734,517)					(1,734,517)	(3,084,111)
Fair value adjustment on issuance of shares					443,173					443,173	
Stock option expenses recognized in the year					15,667					15,667	
Losses in treasury stock sellings					(994)					(994)	
Stock option exercised during the year	22,527				(1,985)					20,542	
Dividends/interest on capital					(629,692)					(629,692)	(134,300)
Destinations proposed to the general assembly			107,124		(107,124)						
Non-controlling interest on consolidated entities					14,050					14,050	41,995
Put options											20,900
Treasury stocks	(59,247)									(59,247)	
<b>Balance as of December 31, 2010</b>	15,651,352	(161,405)	307,329	22,700	5,534,468	2,706	390,400	(33,733)	(2,243,375)	19,470,442	677,111

**2011 Changes in Equity**

Net income					2,005,727					2,005,727	91,891
Other comprehensive income (loss) recognized in the year					(164,916)	(1,010)	(707,466)	33,733	1,857,346	1,017,687	44,000
Total comprehensive income (loss) recognized in the year					1,840,811	(1,010)	(707,466)	33,733	1,857,346	3,023,414	135,900
Capital increase by issuance of shares	3,597,829									3,597,829	
Effects of interest changes in subsidiaries					(435,328)					(435,328)	721,200
Stock option expenses recognized in the year					15,604					15,604	30,000
Stock option exercised during	9,133				(1,965)					7,168	

Edgar Filing: GERDAU S.A. - Form 20-F

the year										
Dividends/interest on capital						(596,733)			(596,733)	(20,000)
Destinations proposed to the general assembly	100,286					(100,286)				
Non-controlling interest on consolidated entities										
Put options										8,000
Treasury stocks		(84,927)							(84,927)	(3,000)
<b>Balance as of December 31, 2011</b>	19,249,181	(237,199)	407,615	36,339	6,242,932	1,696	(317,066)	(386,029)	24,997,469	1,522,300

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

## GERDAU S.A.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2011, 2010 and 2009

In thousands of Brazilian reais (R\$)

	Note	2011	2010	2009
<b>Cash flows from operating activities</b>				
Net income for the year		2,097,576	2,457,379	1,004,508
Adjustments to reconcile net income for the year to net cash provided by operating activities				
Depreciation and amortization	28	1,771,881	1,893,074	1,745,319
(Reversal) Impairment of assets			(336,346)	1,072,190
Restructuring costs				150,707
Equity in earnings of unconsolidated companies	10	(62,662)	(39,454)	108,957
Exchange variation, net	29	(51,757)	(104,364)	(1,060,883)
Losses / (Gains) on financial instruments, net	29	65,438	(12,392)	26,178
Post-employment benefits		15,882	82,611	33,995
Stock based remuneration		13,974	18,629	22,380
Income tax	8	253,096	501,859	26,952
Loss / (Gain) on disposal of property, plant and equipment and investments		21,006	(20,532)	116,989
Gains on available for sale securities		(28,073)		
Allowance for doubtful accounts	5	42,980	16,018	57,971
Provision (reversal) for tax, labor and civil claims	17	261,024	199,092	(15,886)
Interest income on investments	29	(265,766)	(174,622)	(346,531)
Interest expense on loans	29	828,106	919,594	992,693
Interest on loans with related parties	18	(4,388)		
Provision for net realisable value adjustment in inventory	6	56,999	50,526	36,459
Reversal of net realisable value adjustment in inventory	6	(122,877)	(50,634)	(196,981)
		4,892,439	5,400,438	3,775,017
<b>Changes in assets and liabilities:</b>				
(Increase) Decrease in trade accounts receivable		(203,041)	(660,891)	1,449,678
(Increase) Decrease in inventories		(681,604)	(1,160,419)	3,766,059
Increase (Decrease) in trade accounts payable		1,121,433	110,358	(1,731,878)
(Increase) Decrease in other receivables		(415,192)	176,403	(148,962)
(Decrease) Increase in other payables		(127,854)	(168,962)	203,038
Distributions from jointly-controlled entities		61,150	68,647	41,887
Purchases of trading securities		(6,113,717)	(712,204)	(1,283,438)
Proceeds from maturities and sales of trading securities		4,384,832	2,423,597	1,642,383
<b>Cash provided by operating activities</b>		2,918,446	5,476,967	7,713,784
Interest paid on loans and financing		(726,360)	(796,799)	(1,026,893)
Income and social contribution taxes paid		(482,068)	(541,048)	(336,299)
<b>Net cash provided by operating activities</b>		1,710,018	4,139,120	6,350,592
<b>Cash flows from investing activities</b>				
Additions to property, plant and equipment	9	(1,961,379)	(1,288,769)	(1,377,776)
Proceeds from sales of property, plant and equipment, investments and other intangibles		11,473	19,269	64,606
Additions to other intangibles	12	(141,666)	(94,598)	
Advance for capital increase in jointly-controlled entity		(74,785)		

Edgar Filing: GERDAU S.A. - Form 20-F

Payment for business acquisitions, net of cash of acquired entities	3.7	(283,110)	(71,068)
Purchases of available for sale securities		(723,285)	(2,589,350)
Proceeds from sales of available for sale securities		778,484	2,925,254
<b>Net cash used in investing activities</b>		<b>(2,111,158)</b>	<b>(1,048,334)</b>
<b>Cash flows from financing activities</b>			
Capital increase		3,874,329	
Purchase of treasury shares		(78,094)	(12,919)
Dividends and interest on capital paid		(550,706)	(328,691)
Payment of loans and financing fees		(25,530)	(37,989)
Payments for interest increase in subsidiaries	3.7		(2,908,969)
Proceeds from loans and financing		1,378,637	4,089,424
Repayment of loans and financing		(3,781,247)	(8,469,908)
Intercompany loans, net		(90,325)	(173,549)
<b>Net cash (used in) provided by financing activities</b>		<b>727,064</b>	<b>(4,933,632)</b>
Exchange variation on cash and cash equivalents		89,641	(303,291)
Increase (Decrease) in cash and cash equivalents		415,565	65,335
Cash and cash equivalents at beginning of year		1,061,034	2,026,609
<b>Cash and cash equivalents at end of year</b>		<b>1,476,599</b>	<b>2,091,944</b>

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

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**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. Gerdau S.A. and subsidiaries (collectively referred to as the Company) are 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. The Company 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 Consolidated Financial Statements of Gerdau S.A. and subsidiaries were approved by the Board of Directors on March 27, 2012.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES**

**2.1 - Basis of Presentation**

The Company's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by *International Accounting Standards Board* (IASB).

The preparation of the Consolidated Financial Statements in accordance with IFRS requires Management to make accounting estimates. The areas that involve judgment or use of estimates relevant to the Consolidated Financial Statements are stated in Note 2.18. The Consolidated Financial Statements have been prepared using the historical cost as its basis, except for the valuation of certain financial instruments and foresting/reforesting assets, which are measured at fair value.

The Company adopted all applicable standards, revision of standards and interpretations issued by IASB and the IFRS Interpretations Committee and that were effective on December 31, 2011.

**2.2 Translation of Foreign Currency Balances**



**a) Functional and Reporting Currency**

The Financial Statements of each subsidiary included in the Company's consolidation and those used as a basis for accounting for equity investments are prepared using the functional currency of each entity. The functional currency of an entity is the currency of the primary economic environment where it operates. By defining the functional currency of each subsidiary, Management considered which currency significantly influences the sales price of its products and services and the currency in which most of the cost of its production inputs is paid or incurred.

**b) Transactions and Balances**

For purposes of the Consolidated Financial Statements, the balances of each subsidiary of the Company are converted into Brazilian reais, which is the presentation currency of the Consolidated Financial Statements.

In the preparation of the financial statements of each subsidiary of the Company, transactions in foreign currency, or any other currency than the functional currency of each company, are recorded according to the exchange rates prevailing at the time of each transaction. At the end of each period, monetary items in foreign currencies are converted at the

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

rates prevailing at year end. The non-monetary items measured at fair value determined in foreign currency are converted at the rates prevailing on the date that the fair value was determined. The non-monetary items that are measured at historical cost in a foreign currency must be converted using the prevailing rate in the transaction date.

For presentation of the consolidated financial statements purposes, assets and liabilities of operations abroad are translated into reais using the exchange rates prevailing at year end. The income statement accounts are translated at average exchange rates for the period unless the exchange rates have fluctuated significantly over the period, in which case, we use exchange rates for the dates of transactions. The exchange differences resulting from these conversions, if any, are recorded in comprehensive income and accumulated in equity, being assigned to the non-controlling interests as appropriate.

When there is a write off for an operation abroad (full write off of participation in a foreign operation, loss of control over an investee or a jointly controlled entity that have operations abroad, or loss of significant influence over an affiliate that has an operation in abroad), the accumulated amount of exchange variance, regarding this operation, recorded in equity is reclassified to profit or loss.

**c) Group Companies**

The results of operations and financial position of all subsidiaries, except the subsidiary located in Venezuela, included in the consolidated financial statements and equity investments with functional currencies different from the reporting currency are translated into the reporting currency as follows:

- i)** Assets and liabilities balances are translated at the exchange rate in effect at the date of the Consolidated Financial Statements;
- ii)** Income and expenses are translated using the average monthly exchange rates for the year; and
- iii)** Translation gains and losses resulting from the above methodology are recognized in Equity, in the Statement of Comprehensive Income, in the account named Cumulative translation adjustment .

**d) Hyperinflation in Venezuela**

As from 2009, Venezuela started to be considered an hyperinflationary economy and in accordance with the standard IAS 29 and IFRIC 7, the financial statements of the subsidiary located in this country have been adjusted so that the amounts are stated in the measurement currency unit of the end of the year, which considers the effects measured by the IPC - *Índice de Preços ao Consumidor* (Consumer Price Index) of Venezuela, which recorded an accumulated index of 212.5%, since the date of acquisition of the subsidiary in Venezuela by the Company in June 2007, and 70.2% in 2011. The effects of inflation in 2011 were presented in the consolidated statements of income.

For purposes of translation of the subsidiary in Venezuela's accounting balances to the presentation currency used in its Consolidated Financial Statements, the Company applied the requirements established by the standard IAS 21, where assets, liabilities, income and expenses balances are translated at the exchange rate prevailing at the date of the Consolidated Financial Statements, being all exchange rate differences from translation being recognized in Equity, and in the Consolidated Statement of Comprehensive Income, in the account named Cumulative translation adjustment.

**2.3 - Financial Assets**

**a) Cash and Cash Equivalents**

Cash and cash equivalents include cash, bank accounts and highly liquid investments with original maturities of 90 days or less and low risk of variation in market value and are stated at cost plus accrued interest.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**b) Short and Long-term Investments**

Short and long-term investments are classified into the following categories: held to maturity securities, available for sale securities, and securities reported at fair value through profit and loss with gains and losses included in profit or loss (trading securities). The classification depends on the purpose for which the investment was acquired. When the investment purpose is to earn short-term gains, they are classified as trading securities. When the purpose is to hold the investment until maturity, they are classified as held to maturity securities, provided that Management has the positive intent and financial condition to hold the investment until maturity. When the purpose is none of the other options above, investments are classified as available for sale securities.

When applicable, transaction costs directly related to the acquisition of a financial asset are added to the amount initially recognized, except for trading securities which are categorized as fair value through profit or loss.

Held to maturity securities are recognized at amortized cost and are reported at acquisition cost plus interest, monetary adjustments, and exchange variation, less impairment losses, when applicable, incurred up to the Consolidated Financial Statements date.

Trading securities are stated at fair value. Interest, monetary adjustments, and exchange variation, when applicable, as well as variations arising from adjustment to fair value are recognized in the income statement when incurred.

Available for sale securities are stated at fair value. Interest, monetary adjustments, and exchange variation, when applicable, are recognized in income when incurred. The variations arising from adjustment to fair value, except for impairment losses, are recognized in other comprehensive income when incurred. Gains and losses recorded in Equity are recognized in the income statement for the year when these investments are sold or considered not recoverable.

**c) Trade Accounts Receivable - Net**

Trade accounts receivable are stated at amortized cost, less impairment losses, when applicable, and accounts receivable from foreign customers are adjusted based on exchange rates in effect at the date of the Consolidated Financial Statements. The allowance for doubtful accounts is calculated based on a risk assessment, which considers historical losses, individual situation of each customer and the situation of the economic group to which they belong, applicable collateral and guarantees and legal counsel's opinion. The allowance is considered sufficient to cover any losses incurred on uncollectible receivables. Information on the breakdown of current and past-due trade accounts receivable and the related

allowance for doubtful accounts is provided at note 5.

**d) Impairment of Financial Assets**

Financial assets are assessed at each balance sheet date for evidence of impairment. They are considered impaired when there is evidence that one or more events have occurred after the initial recognition of the financial asset and such event or events had a negative impact on the estimated future cash flows of the investment.

**2.4 Inventories**

Inventories are measured based on the lower of historical cost of acquisition and production and net realizable value. The acquisition and production costs are increased by transport, storage and non-recoverable taxes expenses.

Net realizable value is the estimated sale price in the ordinary course of business less the estimated costs of completion and selling expenses directly related. Information regarding the allowance for adjustments to net realizable value is demonstrated at note 6.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**2.5 - Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost, monetarily adjusted when applicable in accordance with IAS 29, less depreciation, except for land, which is not depreciated, and less impairment losses, when applicable. The Company recognizes monthly as part of the acquisition cost of the property, plant and equipment in process the borrowing costs incurred on loans and financing considering the following capitalization criteria: (a) the capitalization period occurs when the property, plant and equipment item is on construction in process and the capitalization of borrowing costs are ceased when the asset is available for use; (b) borrowing costs are capitalized considering the weighted average rate of loans existing on the capitalization date or a specific rate, in the case of loans to acquire property, plant and equipment; (c) borrowing costs capitalized monthly do not exceed the interest expenses calculated in the period of capitalization; and (d) capitalized borrowing costs are depreciated considering the same criteria and useful life determined for the property, plant and equipment item to which it was capitalized. Forestation/reforestation assets are measured at fair value on the date of financial statements, when fair value can be measured reliably, or at cost in accordance with IAS 41.

Depreciation is calculated under the modified straight-line method at rates that take into consideration the estimated useful lives of the assets, its level of utilization and the estimated residual value of the asset at the end of its useful life.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated to these items are probable and the amounts can be reliably measured. The residual value of the replaced item is written off. Other repairs and maintenance are recognized directly in income when incurred.

The estimated residual value of the asset at the end of its useful life and useful life of the assets are reviewed and adjusted, if necessary, at the fiscal year-end.

The net book value of property, plant and equipment is written off immediately when it exceeds its recoverable amount by the amount the net book value exceeds the recoverable amount (note 2.7).

**2.6 Other Intangible Assets**

Other intangible assets are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Intangible assets consist of carbon emission reduction certificates, and customer contracts and relationships, which represent the capacity to add value of acquired

companies based on the relationship with customers. Intangible assets with definite useful lives are amortized taking into consideration their effective use or a method that reflects their economic benefit. The net book value of intangible assets is written off immediately when it exceeds the estimated recoverable amount by the amount the net book value exceeds the recoverable amount (note 2.7).

Intangible assets acquired in a business combination are recorded at fair value, less accumulated amortization and impairment losses, when applicable. Intangible assets that do not have indefinite lives are amortized over their useful lives using an amortization method which reflects the economic benefit of the intangible asset. The customer and supplier relationship intangible asset is amortized based on an accelerated method that considers the expected future economic benefit provided by those acquired customers and suppliers over time. Intangible assets are reviewed for impairment annually or if events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company reviews the amortization period and amortization method for intangible assets with definite useful lives at the end of each year.

## **2.7 Provision for Impairment of Long-Lived Assets and Reversal of Impairment**

On the date of each Consolidated Financial Statement, the Company performs an analysis to determine if there is evidence that the carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

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

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

When the carrying amount of the asset exceeds its recoverable amount, the Company reduces the asset's carrying amount to the recoverable amount.

The reduction to the recoverable amount of assets is recorded in income for the year.

Except for an impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined as if the impairment had not been recorded, as demonstrated at note 27.2.

## **2.8 Investments**

### **a) Investments in Subsidiaries**

The Company's consolidated financial statements include the financial statements of Gerdau S.A. and all its subsidiaries. The Company considers that it has control when it directly or indirectly holds a majority of the voting rights in the Shareholders Meetings or has the power to determine the financial and operational policies in order to obtain benefits from its activities. In situations in which the Company in essence holds control of other special purpose entities, even though it does not control a majority of the voting rights, these entities are consolidated under the full consolidation method.

Third parties' interests in equity and net income of subsidiaries are reported separately in the consolidated balance sheet and in the consolidated statement of income, respectively, under the account Non-controlling interests.



For companies acquired after January 1, 2006, which is the Company's transition date to IFRS, the assets, liabilities, and contingent liabilities of a subsidiary are reported at their respective fair value on the date of acquisition. Any excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition took place. The non-controlling interests are presented based on the proportion of the fair value of the assets and liabilities identified.

Net income of the subsidiaries acquired or sold during the year is included in the statement of income from the acquisition date or until the sale date, respectively, when applicable. Intercompany transactions and balances are eliminated in the consolidation process. Gains or losses resulting from the transactions among consolidated entities of the Company are also eliminated.

Adjustments are made to the Financial Statements of the subsidiaries whenever necessary in order for them to be in accordance with the respective accounting practices established by the IFRS and adopted by the Company.

**b) Investments in Jointly-Controlled Entities**

Jointly-controlled entities are those in which the control is held jointly by the Company and one or more partners. Investments in jointly-controlled entities are recognized under the equity method from the date the joint control is acquired. According to this method, investments in jointly-controlled entities are recognized in the consolidated balance sheet at acquisition cost and are adjusted periodically based on the Company's share in earnings and other variations in

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Equity of these companies. Additionally, the balances of the investments can be reduced due to impairment losses.

Losses in jointly-controlled entities in excess of the investment in these entities are not recognized, except when the Company is contractually obligated or has agreed to reimburse these losses.

Any excess of the acquisition cost of an investment over the net fair value of assets, liabilities and contingent liabilities of a jointly-controlled entity on the respective acquisition date of the investment is recorded as goodwill. Goodwill is added to the value of the respective investment and its recovery is analyzed annually as an integral part of the investment. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition takes place.

Furthermore, dividends received from these companies are recorded as a reduction in the value of the investments.

Gains and losses on transactions with jointly-controlled entities are eliminated against the value of the investment in these jointly-controlled entities proportionately to the Company's interest.

**c) Investments in Associate Companies**

An associate company is one over which the Company exercises significant influence by participating in the decisions related to its financial and operational policies, but over which it does not have control or joint control of its policies.

Investments in associate companies are recorded under the equity method. According to this method, investments in associate companies are recognized in the consolidated balance sheet at cost and are adjusted periodically for the share in their earnings against gains and losses on financial assets and other variations in net assets acquired. Additionally, investments can be adjusted to recognize impairment losses.

Losses on associate companies in excess of the investment in these entities are not recognized, except when the Company has agreed to cover these losses.

Any excess of the acquisition cost of an investment over the net fair value of the assets, liabilities, and contingent liabilities of the associate company on the respective acquisition date of the investment is recorded as goodwill. The goodwill is added to the value of the respective investment and its recovery is analyzed annually as an integral part of the investment. When the acquisition cost is less than the fair value of the net assets identified, the difference is recorded as a gain in the statement of income for the year in which the acquisition takes place.

Furthermore, dividends received from these companies are recorded as a decrease in the value of the investments.

Gains and losses on transactions with associate companies are eliminated proportionately to the Company's interest against the value of the investment in these associate companies.

## **2.9 Financial Liabilities and Equity Instruments**

### **a) Classification as Debt or Equity**

Debt or equity instruments are classified in accordance with the substance of the contractual terms.

### **b) Short and Long-Term Debts**

Short and Long-Term Debts are stated at amortized cost.

They are stated net of transaction costs, and are subsequently measured at the amortized cost using the effective interest method.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**c) Equity Instruments**

An equity instrument is based on a contract that evidences a residual interest in the assets of an entity after deducting its liabilities.

**d) Derivative Instruments and hedge**

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuation in interest rates and exchange rates. The Company measures its derivative financial instruments based on quoted prices for similar assets, which are the fair value of the financial instruments on the date of the Consolidated Financial Statement.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge or a net investment hedge are recorded in the statement of comprehensive income.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or exercised, the cumulative unrealized gain or loss, which had been recognized in the statement of comprehensive income, is reclassified immediately in the statement of income. Additionally, changes in the fair value of financial instruments not characterized as hedge are recognized in the financial expense or financial income accounts in the Income Statement.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in the statement of comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the statement of income.

The potential cash payments related to put options issued by the Company over the equity of subsidiaries are accounted under account Put options on non-controlling interest. The amount that may become payable under the option on exercise is initially recognized at fair value and are subsequently measured in order to accrete the liability up to the date on which it becomes exercisable. The charge arising is recorded as a financial expense in the statement of income. In the event that the option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

**2.10 Current and Deferred Income and Social Contribution Taxes**

Current income and social contribution tax expense is calculated in conformity with current tax laws in effect at the date of the financial statements in the countries where the Company's subsidiaries, associates and jointly-controlled entities operate and generate taxable income. Management periodically evaluates positions taken in relation to tax matters which are subject to interpretation and recognizes a provision when there is an expectation of payment of income tax and social contribution as tax bases.

Current tax is the tax payable or receivable on the expected taxable income or loss for the year, at the tax rates effective at the date of the financial statements.

Deferred income and social contribution taxes are recognized for differences between assets and liabilities recognized for tax purposes and related amounts recognized in the Consolidated Financial Statements. However, deferred income and social contribution taxes are not recognized if they arise at the initial recognition of assets and liabilities from operations that do not affect the tax bases, except in business combinations. Deferred income and social contribution taxes are determined based on the tax rates and laws in effect at the date of the Consolidated Financial Statements and applicable when the respective income and social contribution taxes be realized.

Deferred income and social contribution tax assets are recognized only to the extent that it is probable that there will be taxable income for which temporary differences and tax losses can be utilized.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Deferred income tax and social contribution assets are reviewed at each closing date and will be reduced to the extent that their realization is not more likely than not.

The expense for income tax and social contribution taxes comprises current and deferred taxes. Current tax and deferred tax is recognized in income unless they are related to business combination, or items directly recognized in equity or in other comprehensive income.

Deferred tax is recognized related to temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the corresponding amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business combination and that do not affect neither accounting books nor taxable profit or loss, and differences associated with investments in subsidiaries and controlled entities when it is probable that they do not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on initial recognition of goodwill. Deferred tax is measured at the tax rates expected to apply to temporary differences when they reverse, based on the laws that were enacted or substantively enacted as of the date of submission of the financial statements.

An income and social contribution tax asset is recognized for tax losses, tax credits and deductible temporary differences not used when it is probable that future profits subject to taxation will be available against which will be used.

The Company only recognizes a provision on tax issues if a past event leads to a present obligation. The Company determines whether a present obligation exists at the year end and taking into consideration all available evidence, including, for example, the opinion of legal advisors. The Company also considers whether it is probable that there will be an outflow of assets and a reliable estimate can be made of the amount of the obligation.

## **2.11 Employee Benefits**

The Company has several employee benefit plans including pension and retirement plans, health care benefits, profit sharing, bonus, and share-based payment, as well as other retirement and termination benefits. The main benefit plans granted to the Company's employees are described at notes 19 and 24.

The actuarial obligations related to the pension and retirement benefits and the actuarial obligations related to the health care plans are recorded based on actuarial calculations performed every year by independent actuaries, using the projected unit credit method, net of the assets that fund

the plan, when applicable, and the related costs are recognized over the employees' vesting period. Any employee benefit plan surpluses are also recognized up to the probable amount of reduction in future contributions of the plans' sponsor.

The projected unit credit method considers each period of service as a triggering event of an additional benefit unit, which is accrued to calculate the total obligation. Other actuarial assumptions are also used such as estimates of the increase of healthcare costs, demographical and economic hypotheses and, also, historical costs and employee contributions.

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions of the pension and retirement benefit plans and actuarial obligations related to the health care plan are recognized directly in the Statement of Comprehensive Income as described at Note 19. The Company believes that the recognition of actuarial gains and losses in comprehensive income provides a better presentation of these changes in the consolidated financial statements when considered as a whole.

#### **2.12 - Other Current and Non-current Assets and Liabilities**

They are recorded at their realizable amounts (assets) and at their known or estimated amounts plus accrued charges and monetary adjustments (liabilities), when applicable.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**2.13 Related-Party Transactions**

Loan agreements between the entities in Brazil and abroad within the Company are adjusted by contracted charges plus foreign exchange variation, when applicable. Sales and purchases of inputs and products are made under terms and conditions as stated in contracts between the parties.

**2.14 Dividend Payment**

Dividend payments are recognized as liabilities at the time dividends are approved by the shareholders of Gerdau S.A. The bylaws of Gerdau S.A. specify dividends of not less than 30% of the annual income; therefore, Gerdau S.A. records a provision at year-end for the minimum dividend amount that has not yet been paid during the year up to the limit of the mandatory minimum dividend described above.

**2.15 Revenue Recognition**

Sales revenues are presented net of taxes and discounts. Taxes on sales are recognized when sales are invoiced and discounts on sales are estimated and recognized when known. Revenues from sales of products are recognized when the sales amount is reliably measured, the Company no longer has control over the goods sold or any other responsibility related to its ownership, the costs incurred or that will be incurred related to the transaction can be reliably measured, it is more likely than not that the economic benefits will be received by the Company, and the risks and benefits of the products have been fully transferred to the buyer. The related costs of freight are included in cost of sales.

**2.16 - Investments in Environmental Protection**

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Environmental costs that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation or cost reduction are expensed. Liabilities are recorded when environmental assessments and or remedial efforts are probable and the cost can be reasonably estimated based on discussions with the environmental authorities and other assumptions relevant to the nature and extent of the remediation that may be required. The ultimate cost to the Company is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation. Environmental liabilities are adjusted to present value using a rate of 7% per year.



## **2.17 Lease Contracts**

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Payments made on operational lease contracts are charged to income on a straight-line basis over the period of the lease.

## **2.18 - Use of Estimates**

The preparation of the Consolidated Financial Statements requires estimates to record certain assets, liabilities and other transactions. To make these estimates, Management used the best information available on the date of preparation of the Consolidated Financial Statements and the experience of past and/or current events, also considering assumptions related to future events. The Consolidated Financial Statements include, therefore, estimates for the determination of useful lives of property, plant and equipment (note 9), estimates of the recoverable amount of long-lived assets (note 27), with respect to the need and the amount of provisions for tax, civil and labor liabilities (note 17), for the determination of income taxes (note 8), in determining the fair value of financial instruments (assets and liabilities) and other instruments (note 15), estimates in selecting interest rates, expected return on assets, mortality tables and expectations for salary increases in long-term postretirement benefits (note 19), and estimates when selecting the valuation model and inputs used in measuring share-based compensation (note 24). Actual results could differ from those estimates.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**2.19 - Business Combinations**

**a) Step-acquisitions in which control is obtained**

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

**b) Acquisitions in which control is obtained initially**

Acquisitions of businesses are accounted under the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange for the control of the acquired business entity. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Expenses related to the acquisition are recognized in the income statement when incurred.

Contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

**c) Increases/decreases in non-controlling interests**

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

Currently, the impact of increases and decreases in interests in subsidiaries that do not involve loss of control are accounted for within equity, with no impact on goodwill or profit or loss.

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

**d) Loss of control of a subsidiary**

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

**2.20 Restructuring Provision**

A restructuring provision is recognized when the Company has a detailed restructuring plan approved and the restructuring was already initialized or been publically announced. Future operational losses provisions are not recognized.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**2.21 - Application of Judgment and Critical Accounting Policies when Preparing Consolidated Financial Statements**

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

**a) Deferred Income and Social Contribution Tax**

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

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

**b) Pension and Post-Employment Benefits**

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

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

- i)** The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit credit method and management's best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.
- ii)** Pension plan assets are stated at market value.
- iii)** Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based in actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions,

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

expected return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computation other factors whose measurement involves judgment are used such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

**c) Environmental Liabilities**

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

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

The Company is compliant with all the applicable environmental regulations in the countries where it operates (note 20).

**d) Derivative Financial Instruments**

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

**e) Useful Lives of Long-Lived Assets**

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

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

**f) Fair Value of Unquoted Derivative Financial Instruments**

The Company has entered into financial instruments in connection with some of its acquisitions, which involve commitments to acquire shares from non-controlling interests of the acquired companies, or grant of put options to some non-controlling interests to sell to the Company their shares. Such derivatives are recorded on the Company's balance sheet in the account Put options on non-controlling interest (note 15.f), and the determination of this value involves a series of estimates that can materially impact its final

result. The Company estimates the fair value of the companies

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

whose shares the Company is committed to acquire using criteria established in each contract, which are in line with practices observed in the market for estimating fair value of unquoted instruments.

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

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

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

**h) Impairment Test of Assets with definite and indefinite useful life**

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

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

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



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

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

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

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

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

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

The tests carried out did not identify any new impairment to the Company's goodwill as well as other assets with indefinite useful life.

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

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

**2.22 - New IFRS and Interpretations of the IFRIC (International Financial Reporting Interpretations Committee)**

Some new IASB accounting procedures and IFRIC interpretations were published and/or reviewed and have their optional or compulsory adoption beginning on January 1, 2011. The Company's assessment of the impact that these new procedures and interpretations were as follows:

**Current standards and interpretation of standards**

**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 1, 2010. The adoption of this revised standard did not have an impact in the Company's Consolidated Financial Statements.

**IFRS 1 and IFRS 7 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters**

In January 2010, the IASB amended IFRS 1 and IFRS 7, which deal with aspects of comparative information disclosure of financial instruments. These changes are effective for years beginning on or after July 1, 2010. The adoption of these changes did not have an impact in the Company's Consolidated Financial Statements.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

In November 2009, the IFRIC issued the interpretation IFRIC 19, which deals with the issuance of equity instruments by an entity to its creditor with the objective of settling financial liabilities. This interpretation is effective for years beginning on or after July 1, 2010. The adoption of this interpretation did not have an impact in the Company's Consolidated Financial Statements.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**IFRIC 14 Prepayments of a Minimum Funding requirement Amendments to IFRIC 14**

In November 2009, the IFRIC amended interpretation IFRIC 14, which is applied in limited circumstances when an entity is subject to minimum funding requirements and performs a payment of contributions in advance to cover these requirements. These changes are effective for years beginning on or after January 1, 2011. The adoption of these changes did not have an impact in the Company's Consolidated Financial Statements.

**IFRS Annual improvements of May 2010**

In May 2010, the IASB revised various standards and interpretations as follows: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The change in the standard IFRS 3 is effective for years beginning on or after July 1, 2010. The other changes in standards are effective for years beginning on or after January 1, 2011. The effects related to the adoption of these changes did not impact the Company Consolidated Financial Statements.

**Standards and Interpretations of standards not yet in force**

**IFRS 9 Financial Instruments**

In November 2009, the IASB issued IFRS 9, which has the objective of replacing the standard IAS 39 Financial Instruments: Recognition and Measurement, in three stages. This standard is the first part of stage 1 of IAS 39 replacement and addresses the classification and measurement of financial assets. In October 2010, the IASB added to this standard the requirements for classification and measurement of financial liabilities. This standard and its subsequent change are effective for annual reporting periods beginning on or after January 1, 2015. The Company is assessing the impacts from the adoption of this standard and possible differences compared to IAS 39.

**IFRS 7 Disclosure - Transfers of Financial Assets**

In October 2010, the IASB revised IFRS 7. This amendment has the objective of adding disclosures that enable users of financial statements to assess the risk of exposure over transfers of financial assets and the effects of these risks on the entity's financial position. The change in the

standard IFRS 7 is effective for annual periods beginning on or after July, 2011. The Company is evaluating the impact of the adoption of this amendment in its Consolidated Financial Statements.

**IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**

In December 2010, the IASB revised IFRS 1. The change of IFRS 1 provides guidelines to first-time adopters, which are located in countries with hyperinflationary economy and also removes fixed dates with the objective of avoiding the treatment of transactions that occurred before the date of transition to IFRSs. The revised standard is effective for annual reporting periods beginning on or after July 1, 2011. The Company understands that these changes will not impact its Consolidated Financial Statements since it already adopted IFRS 1.

**IAS 12 Deferred Tax: Recovery of Underlying Assets**

In December 2010, the IASB revised the standard IAS 12. This change in the IAS 12 includes aspects related to the determination of the expected way of deferred assets and liabilities income tax recovery when an investment property is measured through the fair value model of IAS 40. This revision in the standard is effective for annual periods beginning on or after January 1, 2012. The Company understands that these changes will not impact its Consolidated Financial Statements.

**IFRS 10 Consolidated Financial Statements**

In May 2011, the IASB issued IFRS 10. This standard establishes the principles for presentation and preparation of consolidated financial statements when an entity controls one or more entities. This standard is effective for annual

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IFRS 11 Joint Arrangements**

In May 2011, the IASB issued IFRS 11. This standard deals with aspects related to the accounting treatment for jointly-controlled entities and joint operations. This standard also limit the use of proportional consolidation just for joint operations, and also establish the equity accounting method as the only method acceptable for joint ventures. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IFRS 12 Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 12. This standard deals with aspects related to the disclosure of nature of risks related to interests owned in subsidiaries, jointly-controlled entities and associate companies. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IFRS 13 Fair Value Measurement**

In May 2011, the IASB issued IFRS 13. This standard establishes fair value and consolidates in a single standard the aspects of fair value measurement and establishes the requirements of disclosure related to fair value. This standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IAS 27 Separate Financial Statements**

In May 2011, the IASB revised IAS 27. The change in IAS 27 deals with aspects related to investments in subsidiaries, jointly-controlled entities and associate companies, when an entity prepare separate financial statements. The revised standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company understands that this change will not impact its Consolidated Financial Statements since separate financial statements are not presented.

**IAS 28 Investments in Associates and Joint Ventures**

In May 2011, the IASB revised IAS 28. The change in IAS 28 deals with aspects related to investments in associate companies and establishes the rules for using the equity accounting method for investments in associate companies and jointly-controlled entities. The revised standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IAS 19 Employee Benefits**

In June 2011, the IASB revised IAS 19. The most significant modification refers to recognizing the changes on defined benefit obligations and plan assets. The modifications require the recognition of changes in defined benefit obligations and fair value of plan assets as they occur, and therefore the elimination of the corridor approach allowed in the previous version of IAS 19 and the advanced recognition of past service costs. Additionally, the amendments require that all actuarial gains and losses are recognized immediately through other comprehensive income so that the net asset or liability of the pension plan is recognized on its Consolidated Financial Statements to reflect the full amount of the plan deficit or surplus. The revised standard is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**IAS 1 Presentation of Items of Other Comprehensive Income**

In June 2011, the IASB revised IAS 1. The change in IAS 1 deals with aspects related to disclosure of other comprehensive income items and establishes the need to separate items which will not be further reclassified to the net income and items that can be further reclassified to the net income. The revised standard is effective for annual reporting periods beginning on or after July 1, 2012. The Company is assessing the impact of adopting this standard on its Consolidated Financial Statements.

**IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

In October 2011, the IASB issued the IFRIC 20. This interpretation deals with aspects related to the accounting treatment of stripping costs in the production phase of a surface mine. This interpretation is effective for annual reporting periods beginning on or after January 1, 2013. The Company is assessing the impact of adopting this interpretation on its Consolidated Financial Statements.

**IFRS 9 e IFRS 7 Mandatory Effective Date and Transition Disclosures Amendments to IFRS 9 and IFRS 7**

In December 2011 the IASB revised IFRS 9 and 7. The amendment of IFRS 9 deals with the extension of the adoption date from January 1, 2013 to January 1, 2015. The amendment of IFRS 7 addresses issues relating to disclosure about the transition from IAS 39 to IFRS 9 and aspects related to the restatement of the comparative periods at the date of adoption of this statement. The Company is evaluating the impact of the adoption of these amendments in its Consolidated Financial Statements.

**IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7**

In December 2011, the IASB revised IFRS 7. The amendment of this standard addresses disclosure issues related to the offsetting of financial assets and liabilities including rights and evaluates its effects. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is evaluating the impact of the adoption of this amendment in its Consolidated Financial Statements.

**IAS 32 Offsetting Financial Assets and Financial Liabilities Amendments to IAS 32**



In December 2011, the IASB revised IAS 32. The amendment of this standard addresses issues related to the offsetting of financial assets and liabilities. This standard is effective for annual periods beginning on or after January 1, 2014. The Company is evaluating the impact of the adoption of this amendment in its Consolidated Financial Statements.

**NOTE 3 - CONSOLIDATED FINANCIAL STATEMENTS**

The Consolidated Financial Statements include Gerdau S.A. and its subsidiaries.

**3.1 - Subsidiaries**

Listed below are the main interests in consolidated subsidiaries, as follows:

F-25

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

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

## Edgar Filing: GERDAU S.A. - Form 20-F

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

- (1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.
- (2) Subsidiary: Gerdau Açominas Overseas Ltd.
- (3) Subsidiary: Gerdau MacSteel Inc.
- (4) Fixed-income investment fund managed by JP Morgan.
- (5) Subsidiaries: Sidenor Industrial S.L., Sidenor y Cia, Sociedad Colectiva, Sidenor I+D S.A., Forjanor S.L., Corporación Sidenor S.A. y Cía., Sidenor Calibrados S.L.
- (6) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda. e Trefilados Bonati S.A., Cerney Holdings Ltd., Indac Colômbia S.A..
- (7) Subsidiaries: LuxFin Participation S.L. and Bogey Holding Company Spain S.L..
- (8) Subsidiaries: Ferrer Ind. Corporation and Laminados Andinos S.A.
- (9) Subsidiaries: Siderúrgica Tultitlán, S.A.de C.V., Sidertul S.A. de C.V., Arrendadora Valle de México, S.A. de C.V. e GTL Servicios Administrativos México, S.A. de C.V.
- (10) Subsidiary: Siderco S.A.
- (11) The subsidiary Maco Holdings Ltd started to be presented as an associate Company, as described in note 3.3.
- (12) The subsidiary GTL Financial Corp. was closed in 2010.
- (13) The subsidiary Aços Villares S.A. was merged by Gerdau S.A.

As operation result of the sales option described in the note 15.f, the Company recognizes 100% as its interest in Corporación Sidenor, instead of the 60% described in the table above.

### 3.2 - Jointly-Controlled Entities

Listed below are the interests in jointly-controlled entities:

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Jointly-controlled entities	Country	Total capital(*)		Equity Interests		Voting capital	
		2011	2010	2009	2011	2010	2009
Gallatin Steel Company	USA	50.00	50.00	50.00	50.00	50.00	50.00
Bradley Steel Processors	Canada	50.00	50.00	50.00	50.00	50.00	50.00
MRM Guide Rail	Canada	50.00	50.00	50.00	50.00	50.00	50.00
Gerdau Corsa, S.A.P.I de C.V.	Mexico	50.00	50.00	50.00	50.00	50.00	50.00
Kalyani Gerdau Steel Ltd.	India	80.57	73.22	56.81	80.57	73.22	56.81

(\*) The equity interests reported represents the ownership percentage directly and indirectly held by the investor in the jointly-controlled entity.

Although the Company owns more than 50% of Kalyani Gerdau Steel Ltd., it does not consolidate the Financial Statements of this entity, because of the joint control agreement, which establish rights of shared management of the business with the other partner.

The summarized financial information of the jointly-controlled entities Gallatin Steel Company, Bradley Steel Processors, MRM Guide Rail, Gerdau Corsa, S.A.P.I. de C.V. and Kalyani Gerdau Steel Ltd., accounted for under the equity method, are presented below on a combined basis:

	Joint-controlled entities		2009
	2011	2010	
<b>Assets</b>			
Current	684,738	468,419	
Non-current	746,625	566,490	
Total Assets	1,431,363	1,034,909	
<b>Liabilities</b>			
Current	376,813	155,930	
Non-current	428,407	295,497	
Adjusted Equity	626,143	583,482	
Total Liabilities and Equity	1,431,363	1,034,909	
Company's share of net assets of jointly-controlled entities	311,285	300,547	
<b>Income statement</b>			
Net sales	2,183,025	1,813,014	1,288,714
Cost of sales	(1,987,130)	(1,662,143)	(1,230,352)
Gross profit	195,895	150,871	58,362
Selling, general and administrative expenses	(32,633)	(29,722)	(36,596)
Other operating expenses	(34,837)	(80,641)	(88,115)

Edgar Filing: GERDAU S.A. - Form 20-F

Income (Loss) before financial income and expenses, and taxes	128,425	40,508	(66,349)
Financial expenses	(54,813)	(25,180)	(87,276)
Income (Loss) before taxes	73,612	15,328	(153,625)
Provision for income and social contribution taxes	7,690	497	22,315
Net income (Loss)	81,302	15,825	(131,310)
Company's share of net income (loss) of jointly controlled entities	33,259	(13,921)	(57,723)

F-27

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## 3.3 Associate companies

Listed below are the interests in associate companies:

Affiliated companies	Country	Total capital (*)		Equity interests		Voting capital	
		2011	2010	2009	2011	2010	2009
Dona Francisca Energética S.A.	Brazil	51.82	51.82	51.82	51.82	51.82	51.82
Armadero Industrial y Comercial S.A.	Chile	50.00	50.00	50.00	50.00	50.00	50.00
Multisteel Business Holdings Corp. and subsidiaries (1)	Dominican Rep.	49.00	49.00	49.00	49.00	49.00	49.00
Corsa Controladora, S.A. de C.V. and subsidiaries (2)	Mexico	49.00	49.00	49.00	49.00	49.00	49.00
Corporación Centroamericana del Acero S.A. and subsidiaries (3)	Guatemala	30.00	30.00	30.00	30.00	30.00	30.00
Maco Holding Ltda.	Brazil	46.58	47,86		46.58	47,86	

(\*) The equity interest reported represents the ownership percentage directly and indirectly held by the investor in the associate company.

(1) Subsidiaries: Industrias Nacionales C. by A. (Dominican Rep.), Steelchem Trading Corp. , NC Trading and Industrias Nacionales C. x A., S.A. (Costa Rica).

(2) Subsidiaries: Júpiter Direccional S.A. de C.V., Aceros Ticomán, S.A. de C.V., Centro Técnico Joist, S.A. de C.V., Aceros Corsa, S.A. de C.V., Aceros Ticoregios, S.A. de C.V.

(3) Subsidiaries: Aceros de Guatemala S.A., Indeta S.A., Siderúrgica de Guatemala S.A.

Although the Company owns more than 50% of Dona Francisca Energética S.A., it does not consolidate the Financial Statements of this associate because of the veto rights granted to minority shareholders that prevent the Company from fully implementing the decisions in conducting the associate s business.

The summarized financial information of the associate companies Dona Francisca Energética S.A., Armadero Industrial y Comercial S.A., Multisteel Business Holdings Corp. and subsidiaries, Corsa Controladora S.A. de C.V. and subsidiaries, Corporación Centroamericana del Acero S.A. and subsidiaries, and Maco Holdings Ltd., accounted for under the equity method, are shown on a combined basis as follows:

	Associate Companies	
	2011	2010
<b>Assets</b>		
Current	1,223,272	885,246
Non-current	1,181,646	1,175,116
Total Assets	2,404,918	2,060,362
<b>Liabilities</b>		
Current	586,125	427,446
Non-current	520,311	341,746
Adjusted Equity	1,298,482	1,291,170
Total Liabilities and Equity	2,404,918	2,060,362
Company's share of net assets of associate companies	632,573	603,892

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010	2009
<b>Income statement</b>			
Net sales	1,711,592	1,409,468	1,463,761
Cost of sales	(1,498,336)	(1,213,825)	(1,388,946)
Gross profit	213,256	195,643	74,815
Selling, general and administrative expenses	(92,946)	(81,199)	(101,101)
Other operating income/expenses	29,134	4,578	(1,112)
Income (Loss) before financial income and expenses, and taxes	149,444	119,022	(27,398)
Financial expenses	(14,392)	(14,157)	(37,675)
Income (Loss) before taxes	135,052	104,865	(65,073)
Provision for income and social contribution taxes	(36,749)	(32,498)	(11,232)
Net income (loss)	98,303	72,367	(76,305)
Company's share of net income (loss) of associate companies	29,403	53,375	(51,234)

**3.4 - Goodwill**

Goodwill represents the excess of the acquisition cost over the net fair value of the assets acquired, liabilities assumed, and identifiable contingent liabilities of the Company's subsidiaries, jointly-controlled entities, or associate company at the respective date of acquisition.

Goodwill related to investments in foreign companies is reported in the functional currency of the party acquiring these subsidiaries and translated to Brazilian reais (the Company's reporting currency) at the exchange rate in effect at the balance sheet date. The exchange rate differences arising from this translation are recorded under the account "Cumulative translation difference" in Equity after the date of transition to IFRS.

Goodwill is recorded as an asset under the accounts "Investments in associates and jointly-controlled entities" and "Goodwill". Goodwill is not amortized and it is subject to impairment tests annually or whenever there are indications of impairment. Any impairment loss is immediately recorded as a cost in the statement of income and shall not be reversed later. Goodwill related to the Company's subsidiaries is allocated to the operating segments, which represent the lowest level at which goodwill is monitored by management.

At the time of selling a subsidiary, jointly-controlled entity or associate company, goodwill is included in the determination of the gain or loss.

**3.5 - Acquisition of additional interest in subsidiaries and business combinations**



**Sipar Gerdau Inversiones S.A.**

On April 1, 2011, the Company acquired an additional interest of 7.25% in the subsidiary Sipar Gerdau Inversiones S.A.. The total amount of this acquisition, to be paid by February 2015, was US\$ 7,590 thousand (R\$ 11,941 in the acquisition date) and as a result of this operation, in accordance with the standard IAS 27, the Company recognized in Equity, the amount of R\$ 8,085, which is the difference between the purchase price paid and the amount of the non-controlling interest in the net assets acquired.

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## 3.6 - Total cash paid for the acquisitions in the years ended December 31, 2011, 2010 and 2009

	2011	2010	2009
Companies / interest acquired			
<b>Acquisitions</b>			
Maco Metalúrgica Ltd.			4,200
Tamco		283,110	
Total purchase price considered of acquired companies		283,110	4,200
Less: Cash and cash equivalents of acquired companies			
		283,110	4,200
<b>Interest increase in subsidiaries</b>			
Gerdau América Latina Participações S.A.			66,868
Cleary Holdings Corp.		100,100	
Gerdau Ameristeel		2,808,869	
		2,908,969	66,868
<b>Interest increase by issuance of shares</b>			
Prontofer Serviços e Construção Ltd.		1,322,075	
Aços Villares S.A.		587,645	
		1,909,720	
Total paid		5,101,799	71,068

The Company does not have any other relevant acquisition costs in addition to the amount already paid.

**3.7 Acquisitions during the years ended December 31, 2010, 2009 or 2008 for which accounting at year-end was provisionally determined and was subsequently adjusted**

**a) Tamco**

On October 21, 2010, the Company, through its subsidiary, Gerdau Ameristeel, purchased 100% of the shares of Tamco, a mini-mill that produces rebar and is one of the largest producers in the U.S. West Coast. Located in Rancho Cucamonga in California, Tamco is the only producer of long steel products in California and primarily serves the markets of California, Arizona and Nevada.

Edgar Filing: GERDAU S.A. - Form 20-F

The Company completed the fair value assessment of the assets and liabilities of Tamco resulting in the recognition of an additional goodwill of R\$ 20,032, which has a substantial offsetting entry in line item property, plant and equipment.

The table below shows the fair value measurement of Tamco's assets and liabilities on the acquisition date:

F-30

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	75,649	(7,045)	68,604
Property, plant and equipment	69,216	77,506	146,722
Intangible assets	11,365	12,579	23,944
Goodwill		110,395	110,395
Non-current assets	558	29	587
Current liabilities	(17,589)	(519)	(18,108)
Non-current liabilities	(18,142)	(30,892)	(49,034)
	121,057	162,053	283,110
Total purchase price paid			283,110

The Company recognized goodwill arising on this acquisition due to the expansion of the Company's geographic operation in western United States and because it believes it will succeed in integrating the business operations and will generate synergies from the acquisition.

**b) 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 purchase prices.

- The Company believes it was able to successfully integrate Corsa Controladora, S.A. de C.V. operations and achieve synergies from the acquisition.

**c) 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 fair value of the assets and liabilities of Gerdau MacSteel Inc., as of the acquisition date:

F-31

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Book Value	Acquisition Adjustments	Fair value upon acquisition
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)
	559,360	1,874,702	2,434,062
Total purchase price considered			2,434,062

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 purchase prices.
- Gerdau strengthens its position as a global supplier of special steels (SBQ).
- The acquisition of MacSteel will open new opportunities for growth in special 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 was able to successfully integrate MacSteel's operations and achieve synergies from the acquisition

**d) Kalyani Gerdau Steel Ltd. (SJK Steel Plant Limited)**

In March 2009, the Company completed the measurement 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.

## e) Caños Córdoba S.R.L.

In October 2009, the Company completed the measurement of the fair value of assets and liabilities of the Caños Córdoba S.R.L. allocating part of the goodwill of R\$ 2.8 million.

The table below shows the fair value of the assets and liabilities of Caños Córdoba S.R.L., as of the acquisition date:

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	12,497		12,497
Goodwill		5,432	5,432
Property, plant and equipment	1,841	4,342	6,183
Current liabilities	(7,997)		(7,997)
Deferred income tax		(1,519)	(1,519)
	6,341	8,255	14,596
Total purchase price considered			14,596

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

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

- The rapidly growing steel industry consolidation all over the world has resulted in a significant increase in purchase prices.
- The Company believes it was able to successfully integrate Caños Córdoba S.R.L. operations and achieve synergies from the acquisition.

## f) K.e.r.s.p.e. Empreendimentos e Participações Ltda.

In December 2009, the Company completed the evaluation of the fair value of assets and liabilities of the K.e.r.s.p.e. Empreendimentos e Participações Ltda. allocating goodwill totaling R\$ 91.6 million.

The following table presents the fair value of the assets and liabilities of K.e.r.s.p.e. Empreendimentos e Participações Ltda., as of the acquisition date:

	Book Value	Acquisition Adjustments	Fair value upon acquisition
Net assets (liabilities) acquired			
Current assets	1		1
Property, plant and equipment	610		610
Other intangibles		143,182	143,182
Deferred income tax		(48,682)	(48,682)
Negative goodwill recognized in the income statement		(2,937)	(2,937)
	611	91,563	92,174
Total purchase price considered			92,174

## NOTE 4 CASH AND CASH EQUIVALENTS, AND SHORT AND LONG-TERM INVESTMENTS

## Cash and cash equivalents



	2011	2010
Cash	7,766	4,105
Banks and short-term investments	1,468,833	1,056,929
Cash and cash equivalents	1,476,599	1,061,034

The Company has no significant amounts of restricted cash or cash equivalents for the presented periods.

#### **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 December 31, 2011 the Company held R\$ 3,095,359 (R\$ 1,105,902 as of December 31, 2010) in trading securities.

##### **Available for sale securities**

As of December 31, 2011 the Company held R\$ 6,290 (R\$ 9,559 as of December 31, 2010) in available for sale securities in current assets and R\$ 0 (R\$ 26,797 as of December 31, 2010) in non-current assets.

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 5 TRADE ACCOUNTS RECEIVABLE

	2011	2010
Trade accounts receivable - in Brazil	1,170,564	1,046,962
Trade accounts receivable - exports from Brazil	252,377	312,870
Trade accounts receivable - foreign subsidiaries	2,242,043	1,860,458
(-) Allowance for doubtful accounts	(62,236)	(67,263)
	3,602,748	3,153,027

The Company's maximum exposure to credit risk, net of the allowance for doubtful accounts, is the amount of the accounts receivable listed above. The actual risk of losses is presented as allowance for doubtful accounts.

The credit risk results from the possibility of the Company not receiving amounts arising from sales operations. In order to minimize this risk, the Company adopts the procedure of carefully analyzing the financial position of its customers, establishing a credit limit, and constantly monitoring customers' balances. The allowance is calculated based on a credit risk assessment, which considers historical losses, individual situation of each customer and the economic group to which they belong, applicable collateral and guarantees and legal counsel's opinion, and is considered sufficient to cover any losses on uncollectible receivables.

The aging list of trade accounts receivable is as follows:

	2011	2010
Current	3,087,915	2,658,628
Past-due:		
Up to 30 days	427,840	354,980
From 31 to 60 days	55,945	52,432
From 61 to 90 days	19,151	15,379
From 91 to 180 days	26,487	28,277
From 181 to 360 days	15,247	39,850
Above 360 days	32,399	70,744
(-) Allowance for doubtful accounts	(62,236)	(67,263)
	3,602,748	3,153,027

The changes in the allowance for doubtful accounts are as follows:



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Balance as of January 1, 2009	(72,320)
Provisions for bad debt during the year	(58,180)
Recoveries in the year	210
Write-offs	40,961
Exchange variation	8,829
Balance as of December 31, 2009	(80,500)
Provisions for bad debt during the year	(20,906)
Recoveries in the year	4,887
Write-offs	26,753
Exchange variation	2,503
Balance as of December 31, 2010	(67,263)
Provisions for bad debt during the year	(46,654)
Recoveries in the year	2,976
Write-offs	48,007
Exchange variation	698
Balance as of December 31, 2011	(62,236)

## NOTE 6 - INVENTORIES

	2011	2010
Finished products	3,108,332	2,455,459
Work in progress	1,573,066	1,418,347
Raw materials	1,986,669	1,639,393
Storeroom supplies	976,030	1,037,672
Advances to suppliers	138,952	104,262
Imports in transit	375,089	295,040
(-) Allowance for adjustments to net realizable value	(98,711)	(152,388)
	8,059,427	6,797,785

The balances of the allowance for adjustments to net realizable value are mainly related to the reduction in the cost or the adjustment to market related to the impact in certain raw materials acquired by the Company, which had a reduction in the sales price of finished products. As a result of higher values in raw materials plus estimated costs to conclude the production in an amount higher to the sales price less estimated cost of sales, the Company recognized adjustments to net realizable values, as follows:

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Balance as of January 1, 2009	(354,431)
Write-offs	196,981
Provision for the year	(36,459)
Exchange rate variation	43,588
Balance as of December 31, 2009	(150,321)
Provision for the year	(50,526)
Write-offs	50,634
Exchange rate variation	3,781
Business acquisitions	(5,956)
Balance as of December 31, 2010	(152,388)
Provision for the year	(56,999)
Write-offs	122,877
Exchange rate variation	(12,201)
Balance as of December 31, 2011	(98,711)

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

The amounts of R\$ 30,298,232, R\$ 25,873,476 and R\$ 22,305,550 were recognized as cost of sales and freight during the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, 2010 and 2009 the cost of sales includes, respectively, the amounts of R\$ 122,877, R\$ 50,634 and R\$ 196,981 related to inventories permanently written off and, respectively, the amounts of R\$ 56,999, R\$ 50,526 and R\$ 36,459 related to the recognition of the allowance for adjustments to net realizable value.

## NOTE 7 TAX CREDITS

	2011	2010
<b>Current</b>		
ICMS (state VAT)	121,615	153,808
COFINS (tax on revenue)	97,783	59,903
PIS (tax on revenue)	16,732	10,800
IPI (federal VAT)	69,436	53,202
Income and social contribution taxes	325,101	168,897
IVA (value-added tax)	142,038	113,811
Others	43,278	25,635
	815,983	586,056

<b>Non-current</b>		
ICMS (state VAT)	86,980	77,440
PIS (tax on revenue)	555	368
COFINS (tax on revenue)	2,540	1,678
Income and social contribution taxes	294,903	320,699
Others	4,057	1,037
	389,035	401,222
	1,205,018	987,278

The estimate of realization of non-current tax credits is as follows:

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010
2011		
2012		106,109
2013	32,006	85,382
2014	88,938	17,067
2015	83,197	83,197
After 2016	184,894	109,467
	389,035	401,222

## NOTE 8 - INCOME AND SOCIAL CONTRIBUTION TAXES

The Company's subsidiaries in Brazil received R\$ 8,371 during the year ended December 31, 2011 (R\$ 41,855 and R\$ 44,772 during the years ended December 31, 2010 and 2009, respectively) 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 Gerdaú Açós 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\$ 0 as of December 31, 2011 (R\$ 23,831 and R\$ 52,149 during the years ended December 31, 2010 and 2009, respectively). The respective tax incentives were recorded directly in the income and social contribution tax accounts in the statement of income.

On December 31, 2011, the Company has a total of tax losses carryforwards arising from its operations in Brazil of R\$ 606,139 Income tax (R\$ 607,370 and R\$ 340,248 during the years ended December 31, 2010 and 2009, respectively) and a total of negative basis of social contribution R\$ 1,291,616 (R\$ 849,446 and R\$ 418,285 during the years ended December 31, 2010 and 2009, respectively), representing a deferred tax asset of R\$ 267,780 (R\$ 228,293 and R\$ 122,708 during the years ended December 31, 2010 and 2009, respectively). The Company believes that the values will be realized based on the expectation of future taxable income. In addition to these deferred tax assets, the Company has not recorded a portion of tax asset of R\$ 172,556 (R\$ 68,048 and R\$ 26,496 during the years ended December 31, 2010 and 2009, respectively), due to lack of opportunity to use the tax losses and negative social contribution of subsidiaries. However, these tax losses and negative basis of social contribution do not have an expiration date.

On December 31, 2011, the subsidiary Gerdaú Ameristeel had deferred tax assets due to tax losses arising from their operations in Canada, totaling R\$ 123,572 (R\$ 113,272 and R\$ 63,287 during the years ended December 31, 2010 and 2009, respectively) related to income taxes. These tax losses expire in several dates from 2025 to 2031. The subsidiary believes that the amounts will be realized based on future taxable income, and historically the subsidiary has generated taxable income to use this asset.

On December 31, 2011, the subsidiary Gerdaú Ameristeel had R\$ 133,881 (R\$ 151,551 and R\$ 139,973 during the years ended December 31, 2010 and 2009, respectively) of tax losses related to capital losses for which deferred tax assets were not recognized in the Consolidated Financial Statements. These losses relate primarily to the long-term investment write-off from subsidiary, and currently do not have expiration dates defined, except for an amount of R\$ 61,836 and R\$ 1,713 included in the Financial Statements on December 31, 2011, which expires in 2015 and 2016. The subsidiary had several state tax losses totaling R\$ 208,060 (R\$ 205,982 and R\$ 237,669 on December 31, 2010 and 2009,

## Edgar Filing: GERDAU S.A. - Form 20-F

respectively) which were not recognized in the Consolidated Financial Statements and have various expiration dates between 2012 and 2031. The subsidiary had also R\$ 76,771 (R\$ 63,119 and R\$ 57,494 on December 31, 2010 and 2009, respectively) state tax credits that were not recognized in the subsidiary Consolidated Financial Statements. These credits have several expiration dates between 2015 and 2018, except for a portion of R\$ 13,147 (R\$ 12,968 and R\$ 11,840 on December 31, 2010 and 2009, respectively), which does not have an expiration date.

In Brazil, income taxes include federal income tax (IR) and social contribution (CS), which represents an additional federal income tax. The statutory rates for income tax and social contribution are 25% and 9%, respectively, for the years ended December 31, 2011 and 2010. In addition to the domestic rates, as mentioned above, the Company is subject to taxation of income taxes on foreign subsidiaries, ranging between 20% and 38.5%. The differences between the



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Brazilian tax rates and the rates of other countries compose the amounts on the difference in tax rates in foreign companies line in the reconciliation of income tax and social contribution.

a) Reconciliation of income tax (IR) and social contribution (CS) adjustments on the net income:

	2011	2010	2009
Income before income taxes	2,350,672	2,959,238	1,031,460
Statutory tax rates	34%	34%	34%
Income and social contribution taxes at statutory rates	(799,228)	(1,006,141)	(350,696)
Tax adjustment with respect to:			
- Difference in tax rates in foreign companies	225,315	6,622	11,325
- Equity in subsidiaries	21,305	13,414	(37,045)
- Interest on equity	54,753	132,780	44,099
- Tax incentives	8,371	65,686	96,921
- Tax deductible goodwill recorded in statutory books	238,043	291,484	188,708
- Other permanent differences (net)	(1,655)	(5,704)	19,736
Income and social contribution taxes	(253,096)	(501,859)	(26,952)
Current	(519,843)	(642,306)	(303,272)
Deferred	266,747	140,447	276,320

b) Breakdown and changes in deferred income and social contribution tax assets and liabilities at statutory tax rates:

	Balance as of January 1, 2009	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2009
<b>Non-current assets</b>					
Income tax losses	581,395		211,785	(122,278)	670,902
Social contribution tax losses	28,405		9,258		37,663
Provision for tax, civil and labor liabilities	122,449		1,865	13,382	137,696
Benefits granted to employees	470,893		11,045	(243,197)	238,741
Other temporary differences	411,185		(4,920)	(344,966)	61,299
Amortized goodwill	57,768		(65)	19,416	77,119
Property, plant and equipment	(6,920)		6,920		
Provision for losses	101,180		15,787	6,649	123,616
Total Non-current assets	1,766,355		251,675	(670,994)	1,347,036

**Non-current liabilities**

Property, plant and equipment and intangible allocations in fair value	2,259,921	49,798	(46,865)	(573,843)	1,689,011
Amortized negative goodwill	72,592		50,915	(27,119)	96,388
Benefits granted to employees	92,071		26,429	52,133	170,633
Other temporary differences	635,684		(55,124)	(262,833)	317,727
<b>Total Non-current liabilities</b>	<b>3,060,268</b>	<b>49,798</b>	<b>(24,645)</b>	<b>(811,662)</b>	<b>2,273,759</b>
<b>Total net</b>	<b>(1,293,913)</b>	<b>(49,798)</b>	<b>276,320</b>	<b>140,668</b>	<b>(926,723)</b>
Effect in the income of the year			276,320		

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Balance as of December 31, 2009	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2010
<b>Non-current assets</b>					
Income tax losses	670,902		140,570	10,340	821,812
Social contribution tax losses	37,663		38,786		76,449
Provision for tax, civil and labor liabilities	137,696		51,199	4,581	193,476
Benefits granted to employees	238,741		6,072	(87,045)	157,768
Other temporary differences	61,299	4,562	(9,846)	114,762	170,777
Amortized goodwill	77,119		(2,971)	(1,669)	72,479
Provision for losses	123,616		(6,367)	(30,999)	86,250
Total Non-current assets	1,347,036	4,562	217,443	9,970	1,579,011
<b>Non-current liabilities</b>					
Allocations in fair value	1,689,011	44,764	61,190	(77,884)	1,717,081
Amortized negative goodwill	96,388		(23,796)		72,592
Benefits granted to employees	170,633		20,967	(47,584)	144,016
Other temporary differences	317,727		18,635	798	337,160
Total Non-current liabilities	2,273,759	44,764	76,996	(124,670)	2,270,849
Total net	(926,723)	(40,202)	140,447	134,640	(691,838)
Effect in the income of the year			140,447		

	Balance as of December 31, 2010	Business acquisition	Recognized in income	Recognized in statement of comprehensive income	Balance as of December 31, 2011
<b>Non-current assets</b>					
Income tax losses	821,812	(70,103)	(87,794)	(244,816)	419,099
Social contribution tax losses	76,449	(36,050)	75,846		116,245
Provision for tax, civil and labor liabilities	193,476		88,383	11,669	293,528
Benefits granted to employees	157,768		(23,070)	147,548	282,246
Other temporary differences	170,777		(74,325)	241,027	337,479
Amortized goodwill	72,479		3,113	(37,232)	38,360
Provision for losses	86,250		(25,240)		61,010
Total Non-current assets	1,579,011	(106,153)	(43,087)	118,196	1,547,967
<b>Non-current liabilities</b>					
Allocations in fair value	1,717,081		(158,203)	(108,833)	1,450,045

Edgar Filing: GERDAU S.A. - Form 20-F

Amortized negative goodwill	72,592		13,808	86,400
Benefits granted to employees	144,016	(144,016)		
Other temporary differences	337,160	(7,615)	(7,265)	322,280
Total Non-current liabilities	2,270,849	(309,834)	(102,290)	1,858,725
Total net	(691,838)	(106,153)	266,747	(310,758)
Effect in the income of the year			266,747	

Credits recognized over tax losses and negative basis of social contribution are supported by projections of taxable income, based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and the prospect of maintaining current profitability

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

in the future, allowing an estimated recovery of credits. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their expectation of realization.

c) Estimated recovery of income and social contribution tax credits and estimated payment of income and social contribution tax liabilities:

	Assets	
	2011	2010
2011		373,210
2012	519,284	229,942
2013	195,704	190,350
2014	178,930	183,873
After 2015	654,049	601,636
	1,547,967	1,579,011

	Liabilities	
	2011	2010
2011		82,752
2012	215,412	96,267
2013	228,812	96,478
2014	228,649	96,023
After 2015	1,185,852	1,899,329
	1,858,725	2,270,849

## NOTE 9 PROPERTY, PLANT AND EQUIPMENT

a) Summary of changes in property, plant and equipment:

	Lands and buildings	Machines, equipment, and installations	Furniture and Fixture	Vehicles	Data electronic equipment	Forestry/ reforestation	Property, plant and equipment under construction	Total
<b>Gross cost of the property, plant, and equipment</b>								
Balances as of January 01, 2009	5,833,143	19,323,716	258,322	198,155	649,890	502,160	2,669,837	29,435,223
Foreign exchange effect	(289,136)	(1,139,241)	(37,309)	(26,339)	178,771		(89,076)	(1,402,330)
Acquisitions/sales of companies		3,189						3,189

Edgar Filing: GERDAU S.A. - Form 20-F

Additions	26,225	277,498	13,887	4,202	74,238	51,940	929,786	1,377,776
Transfers	(45,676)	1,942,361	(9,951)	(33,225)	(27,132)	(17,384)	(1,808,993)	
Disposals	(30,606)	(771,018)	(17,042)	(22,763)	(119,229)	(73,774)	(82,878)	(1,117,310)
Impairment (note 27.2)	(73,138)	(497,488)	(61)	(3,880)	(1,914)		(17,599)	(594,080)
Balances as of December 31, 2009	5,420,812	19,139,017	207,846	116,150	754,624	462,942	1,601,077	27,702,468
Foreign exchange effect	(91,688)	(512,149)	2,618	1,836	(14,849)		3,320	(610,912)
Acquisitions/sales of companies	35,800	109,436					27,862	173,098
Additions	89,107	49,189	6,432	4,133	7,974	108,628	1,023,306	1,288,769
Transfers	519,280	718,598	1,595	12,397	22,457		(1,274,327)	
Disposals	(24,874)	(127,586)	(1,709)	(18,291)	(3,455)	(58,915)	(9,051)	(243,881)
Impairment (note 27.2)		(168,449)						(168,449)
Reversal of Impairment (note 27.2)	33,911	154,910	44					188,865
Balances as of December 31, 2010	5,982,348	19,362,966	216,826	116,225	766,751	512,655	1,372,187	28,329,958
Foreign exchange effect	276,388	1,221,759	17,948	16,913	22,442		59,613	1,615,063
Additions	1,570	35,293	7,915	6,438	11,847	74,419	1,823,897	1,961,379
Transfers	518,110	659,603	25,032	23,286	(185,434)		(1,040,597)	
Disposals	(19,893)	(150,672)	(3,449)	(5,442)	(47,474)		(37,653)	(264,583)
Fair value allocation						27,226		27,226
Balances as of December 31, 2011	6,758,523	21,128,949	264,272	157,420	568,132	614,300	2,177,447	31,669,043

F-40

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Lands and buildings	Machines, equipment, and installations	Furniture and Fixture	Vehicles	Data electronic equipment	Forestry/ reforestation	Property, plant and equipment under construction	Total
<b>Accumulated depreciation</b>								
Balances as of January 01, 2009	(1,661,278)	(6,959,903)	(144,088)	(104,184)	(420,679)	(90,340)	(4)	(9,380,476)
Foreign exchange effect	(187,900)	(888,589)	21,518	11,109	(30,920)	(34)	919	(1,073,897)
Depreciation, amortization and depletion	(35,525)	(1,442,492)	(9,736)	(11,130)	(42,382)	(21,599)	(361)	(1,563,225)
Transfers	204	(21,139)	1,299	537	1,551	17,691	(143)	
Disposals	7,963	742,400	16,876	18,937	117,855	68,137		972,168
Impairment	3,529	67,513		1,574	1,447			74,063
Balances as of December 31, 2009	(1,873,007)	(8,502,210)	(114,131)	(83,157)	(373,128)	(26,145)	411	(10,971,367)
Foreign exchange effect	83,568	219,397	(1,697)	857	5,891			308,016
Depreciation, amortization and depletion	(232,659)	(1,376,603)	(18,003)	(15,093)	(55,448)	(16,681)		(1,714,487)
Transfers	3,867	(984)	(19)	(3,115)	251			
Disposals	4,806	80,693	754	12,197	3,663	16,887		119,000
Impairment		100,440						100,440
Balances as of December 31, 2010	(2,013,425)	(9,479,267)	(133,096)	(88,311)	(418,771)	(25,939)	411	(12,158,398)
Foreign exchange effect	(275,525)	(420,177)	(21,255)	(13,037)	(24,192)			(754,186)
Depreciation, amortization and depletion	(207,447)	(1,281,584)	(23,404)	(14,322)	(64,611)	(28,403)		(1,619,771)
Transfers	(25,537)	20,285	(377)	2,859	2,770			
Disposals	2,311	102,732	3,048	4,455	46,248		(411)	158,383
Balances as of December 31, 2011	(2,519,623)	(11,058,011)	(175,084)	(108,356)	(458,556)	(54,342)		(14,373,972)
<b>Net property, plant and equipment</b>								
Balances as of December 31, 2009	3,547,805	10,636,807	93,715	32,993	381,496	436,797	1,601,488	16,731,101
Balances as of December 31, 2010	3,968,923	9,883,699	83,730	27,914	347,980	486,716	1,372,598	16,171,560
Balances as of December 31, 2011	4,238,900	10,070,938	89,188	49,064	109,576	559,958	2,177,447	17,295,071

The following useful lives are used to calculate depreciation, amortization, and depletion:

	Useful lives of property, plant and equipment
Buildings	20 to 33 years
Machines, equipment, and installations	10 to 20 years
Furniture and fixture	5 to 10 years
Vehicles	3 to 5 years

Data electronic equipment	2.5 to 6 years
Forestry/reforestation	Cutting plan

**b) Insured amounts** property, plant and equipment are insured against fire, electrical damage and explosion. The insurance coverage is based on the amounts and risks involved. The Company and the subsidiaries plants in the North America, Spain and Latin America (except Brazil), and the subsidiary Gerdau Açominas S.A. are also insured against loss of profits.

**c) Capitalized borrowing costs** borrowing costs capitalized during the year 2011 totaled R\$ 49,551 (R\$ 48,246 and R\$ 78,535 during the years ended on December 31, 2010 and 2009, respectively).

**d) Guarantees** property, plant and equipment have been pledged as collateral for loans and financing in the amount of R\$ 119,289 as of December 31, 2011 (R\$ 129,202 and R\$ 218,833 as of December 31, 2010 and 2009, respectively).

**e) Impairment of property, plant and equipment** On December 31, 2011, the residual amount for the fixed assets impacted by the impairment is R\$ 32,147 for lands, buildings and constructions (R\$ 34,622 as of December 31, 2010) and R\$ 11,986 for machines, equipments and installations (R\$ 13,089 as of December 31, 2010).



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 10 INVESTMENTS

## I) Associates and jointly-controlled entities

	Joint Ventures			Associate companies					
	Joint Ventures North America	Gerdaul Corsa S.A.P.I. de C.V.	Kalyani Gerdaul Steel Ltd.	Dona Francisca Energética S.A.	Armacero Ind. Com. Ltda.	Grupo Multisteel Business Holdings Corp.	Corsa Controladora S.A. de C.V.	Corporación Centro Americana del Acero, S.A.	Maco Holding Ltda.
Balance as of									
January 1, 2009	390,860	88,136	97,262	84,493	15,938	292,962	106,387	230,006	
Equity in earnings	(15,579)	(4,639)	(37,505)	5,966	1,192	(56,347)	13,076	(15,121)	
Cumulative									
Translation									
Adjustment	(95,592)	(25,409)	2,393	2,154	(1,323)	(74,128)	(2,933)	(81,550)	
Dividends	(20,931)					(2,721)	(17,963)	(4,780)	
Acquisition/disposal of investment									
Reclassification of fair value									
Impairment			(46,092)						
Balance as of									
December 31, 2009	258,758	58,088	16,058	92,613	15,807	159,766	98,567	128,555	
Equity in earnings	829	(1,657)	(13,093)	12,765	1,773	15,075	7,385	(6,672)	23,04
Cumulative									
Translation									
Adjustment	1,844	769	(1,813)		333	(8,236)	1,226	7	
Dividends	(43,788)			(5,182)		441	(8,279)	165	
Acquisition/disposal of investment									
Capital increase			24,552						74,73
Balance as of									
December 31, 2010	217,643	57,200	25,704	100,196	17,913	167,046	98,899	122,055	97,78
Equity in earnings	75,013	(7,582)	(34,172)	18,019	727	(4,297)	11,114	2,669	1,17
Cumulative									
Translation									
Adjustment	31,737	(130)	3,358		1,144	20,884	(3,229)	13,642	15,24
Dividends	(57,873)			(11,489)		(3,672)	(23,093)		(7,38
Acquisition/disposal of investment									(2,77
Capital increase			387						
Balance as of									
December 31, 2011	266,520	49,488	(4,723)	106,726	19,784	179,961	83,691	138,366	104,04

## a) Joint Ventures North America

Composed by the Companies: Gallatin Steel Company, Bradley Steel Processors e MRM Guide Rail.

**b) Goodwill**

	2011	2010	2009
Dona Francisca Energética S.A.	17,071	17,071	17,071
Grupo Multisteel Business Holdings Corp.	42,096	39,112	42,566
Corsa Controladora S.A. de C.V.	140,045	140,686	139,677
Corporación Centroamericana del Acero, S.A.	184,463	161,919	171,328
Kalyani Gerdau Steel Ltd.	26,468		
	410,143	358,788	370,642

**II) Advance for capital increase in jointly-controlled entity**

The advance for capital increase in jointly-controlled entity refers to R\$ 65,254 in the Kalyani Gerdau Steel Ltd..

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 11 GOODWILL

The changes in goodwill are as follows:

	Goodwill	Accumulated impairment losses	Goodwill after Impairment losses
Balance as of January 01, 2009	11,333,021	(38,919)	11,294,102
(+/-) Foreign exchange effect	(2,632,029)	29,377	(2,602,652)
(+) Additions	26,111		26,111
(-) Write-off	(91,563)		(91,563)
(-) Impairment losses		(201,657)	(201,657)
Balance as of December 31, 2009	8,635,540	(211,199)	8,424,341
(+/-) Foreign exchange effect	(443,075)	15,888	(427,187)
(+) Additions	160,944		160,944
Balance as of December 31, 2010	8,353,409	(195,311)	8,158,098
(+/-) Foreign exchange effect	996,827	(19,168)	977,659
(+) Additions	20,032		20,032
Balance as of December 31, 2011	9,370,268	(214,479)	9,155,789

The amount of goodwill by segment is as follows:

	2011	2010	2009
Brazil	380,644	380,644	376,322
Specialty Steels	2,016,847	1,800,754	1,933,685
Latin America	784,945	687,868	682,998
North America	5,973,353	5,288,832	5,431,336
	9,155,789	8,158,098	8,424,341

## Goodwill impairment test

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, as the discounted cash flow for operating segments which have goodwill.

## Edgar Filing: GERDAU S.A. - Form 20-F

Recoverability of goodwill is evaluated based on analysis and identification of facts and circumstances that could result in the need of anticipation for the tests performed annually. If some fact or circumstance indicates that the recoverability of goodwill is affected, then the test is performed in advance. In the year ended December 31, 2011, the Company carried out goodwill impairment tests for all of its operating segments, which represented the lowest level at which goodwill is monitored by management, based on projections for expected discounted cash flows and which took into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

The results of recoverability of goodwill are disclosed at Note 27.

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 12 INTANGIBLE ASSETS

Intangible assets refer basically to relationships arising from the acquisition of companies and software development:

	Supplier relationship	Software development	Carbon Emission Reduction Certified	Customer contracts and relationships	Others	Total
Balance as of January 01, 2009			22,852	1,679,101	10,977	1,712,930
Exchange variation			(4,548)	(369,298)	(253)	(374,099)
Business combination acquisitions	155,682					155,682
Impairment				(270,544)		(270,544)
Amortization	(28,637)		(10,561)	(190,495)	(1,476)	(231,169)
Balance as of December 31, 2009	127,045		7,743	848,764	9,248	992,800
Exchange variation			(2,430)	(30,526)	129	(32,827)
Acquisition		82,701	11,897			94,598
Business combination acquisitions				30,591		30,591
Reversal of impairment losses				216,191		216,191
Disposal			(4,925)			(4,925)
Amortization	(8,129)			(110,558)	(918)	(119,605)
Balance as of December 31, 2010	118,916	82,701	12,285	954,462	8,459	1,176,823
Exchange variation			1,998	111,631	(225)	113,404
Acquisition		130,120	11,546			141,666
Disposal			(6,075)			(6,075)
Amortization	(14,991)			(135,950)	(1,169)	(152,110)
Balance as of December 31, 2011	103,925	212,821	19,754	930,143	7,065	1,273,708
Estimated useful lives	5 to 20 years	7 years	Undefined	5 to 20 years	5 years	

The composition of other intangible assets by segment is as follow:

	2011	2010	2009
Brazil	263,865	190,228	130,706
Special Steels	270,143	272,455	60,501
North America	739,700	714,140	801,593
	1,273,708	1,176,823	992,800

Intangible assets are amortized over their estimated useful lives and have the counterpart the account of cost of sales. The 2011 acquisitions refer substantially to the software development project with application on the business management. The evaluation results of the other intangible assets impairment are presented at note 27.



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 13 LOANS AND FINANCING

Loans and financing are as follows:

	Annual charges (*)	2011	2010
<b>Short term financing in Brazilian reais</b>			
Working capital	5.45%	420,943	151,379
Financing of investment	11.09%	5,103	5,729
<b>Short term financing in foreign currency</b>			
Working capital (US\$)	2.12%	448,023	502,393
Working capital ( )	4.13%	39,456	100,635
Working capital (Clp\$)	1.65%	2,710	24,373
Working capital (Cop\$)	7.63%	101,345	79,775
Working capital (PA\$)	20.60%	23,014	35,377
Working capital (Mxn\$)	6.72%	41,439	46,314
Financing of property, plant and equipment and others (US\$)	2.80%	17,240	5,930
		1,099,273	951,905
Plus current portion of long-term financing		616,032	626,063
Short term financing plus current portion of long-term financing		1,715,305	1,577,968
<b>Long-term financing in Brazilian reais</b>			
Working capital	7.01%	568,340	939,286
Financing of property, plant and equipment	7.66%	1,423,333	1,497,509
<b>Long-term financing in foreign currency</b>			
Working capital (US\$)	3.06%	1,465,818	1,062,624
Working capital ( )	4.13%	82,329	82,761
Working capital (Mxn\$)	6.72%	20,175	4,872
Working capital (COP\$)	7.31%	169,373	206,638
Ten Year Bonds (US\$)	6.70%	7,582,966	6,709,187
Term Loan Facility (US\$)	1.65%		2,073,264
Advances on export contracts (US\$)	5.91%	96,986	130,138
Financing of investment (US\$)	4.63%	27,542	38,323
Financing of property, plant and equipment and others (US\$)	3.37%	361,460	241,517
		11,798,322	12,986,119
Less: current portion		(616,032)	(626,063)
Long term financing minus current portion		11,182,290	12,360,056
Total financing		12,897,595	13,938,024

(\*) Weighted average effective interest costs on December 31, 2011.

Edgar Filing: GERDAU S.A. - Form 20-F

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 by the IGP-M (general market price index, a Brazilian inflation rate measured by Fundação Getúlio Vargas).



**GERDAU S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2011, 2010 and 2009****(in thousands of Brazilian reais R\$, unless otherwise stated)**

Summary of loans and financing by currency:

	<b>2011</b>	<b>2010</b>
Brazilian Real (R\$)	2,417,719	2,593,903
U.S. Dollar (US\$)	10,000,035	10,763,376
Euro ( )	121,785	183,396
Colombian Peso (Cop\$)	270,718	286,413
Argentine Peso (PA\$)	23,014	35,377
Chilean Peso (Clp\$)	2,710	24,373
Mexican Peso (Mxn\$)	61,614	51,186
	12,897,595	13,938,024

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

	<b>2011</b>	<b>2010</b>
2012		1,547,697
2013	1,291,602	2,589,530
2014	1,140,192	787,169
2015	518,323	327,995
2016 on	8,232,173	7,107,665
	11,182,290	12,360,056

**a) Term Loan Facility**

On April 21, 2011, the Company paid in advance the total of its Term Loan Facility, in the amount of US\$ 1.3 billion (R\$ 2.1 billion). Due to this settlement, the Company recognized an expense regarding the amortization of the remaining deferred financial costs in the amount of R\$ 13.6 million.

**b) Global Credit Line**

On August 18, 2011, the Company concluded the Senior Unsecured Global Working Capital Credit Agreement, which is a US\$ 1 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The following companies guarantee this agreement: Gerdau S.A, Gerdau Açominas S.A, Gerdau Aços Longos S.A, Gerdau Aços Especiais S.A and Gerdau Comercial de Aços S.A. The line is divided into two

tranches of US\$ 500 million each. One of the tranches is for Gerdau's North American subsidiaries borrowing needs and the other is for Gerdau's Latin American and Spanish subsidiaries' borrowing needs. Due to this credit line agreement, the other credit lines of the North American subsidiaries and the subsidiary Gerdau Macsteel Inc. were canceled. This transaction has a tenor of 3 years. As of December 31, 2011, the outstanding loans under the line totaled US\$ 329,8 million (R\$ 618.6 million as of December 31, 2011) and are classified as working capital (US\$).

**c) *Ten Years Bonds***

**Bond 2021**

On October 1, 2010, the subsidiary Gerdau Trade Inc., concluded the issuance of bonds totaling US\$ 1.25 billion and final maturity on January 30, 2021. The following companies guarantee this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A.. On December 31, 2011, the outstanding principal of this facility was R\$ 2,344,750. Part of these resources were used for advanced settlement of the obligation (Perpetual Bond) in the amount of US\$ 600 million (R\$ 1,031 million) on the redemption

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

date). These obligations arose on September 15, 2005 and had no final maturity, and as from September 22, 2010, Gerdau had the right to exercise the repurchase of the bonds.

**Bond 2020**

On November 18, 2009, the subsidiary Gerdau Holdings Inc. concluded the issuance of bonds totaling US\$1.25 billion and final maturity on January 20, 2020. The following companies guarantee this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding principal of this facility was US\$1.25 billion (R\$ 2,344,750 on December 31, 2011).

**Bond 2017**

On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the issuance of bonds totaling US\$1 billion with subsequent reopening of US\$ 500 million, totaling US\$1.5 billion and final maturity on October 20, 2017. The following companies guarantee this transaction: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. On December 31, 2011 the outstanding principal of this facility was US\$1.5 billion (R\$ 2,813,700 on December 31, 2011).

**d) ECGD - Export Credits Guarantee Department**

On June 16, 2011, the subsidiary Gerdau Açominas S.A entered into US\$ 251.5 million (R\$ 466.4 million) facility agreement which a maturity date of August 8, 2023. Gerdau S.A. guarantees this transaction. The following financial institutions are lender parties of this transaction: Deutsche Bank AG, London Branch; HSBC Limited, Tokyo Branch; Citibank Europe plc e BNP Paribas. This transaction is secured by ECGD (Export Credits Guarantee Department), UK's Export Credit Agency (ECA). On December 31, 2011 the outstanding principal of this facility was US\$ 76.9 million (R\$ 144.3 million on December 31, 2011) and is classified as financing of property, plant and equipment (US\$).

**e) Covenants**

## Edgar Filing: GERDAU S.A. - Form 20-F

As an instrument to monitor the financial conditions of the Company by the Company's creditors, certain financial agreements contain financial covenants. Below are brief descriptions of the financial covenants required in the Company's debt agreements.

**I) Consolidated Interest Coverage Ratio** measures the interest expense payment capacity in relation to EBITDA, as defined in the contracts with banks (earnings before interest, taxes, depreciation, amortization, impairment reversal/losses and restructuring costs). 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 December 31, 2011 such covenant was 4.3 times;

**II) Consolidated Leverage Ratio** measures the level of gross debt in relation to EBITDA as defined in the contracts with banks. The contractual ratio indicates that the gross debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2011 such covenant was 2.9 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\$ 3,795,200; As of December 31, 2011 such level was R\$ 26,519,803; 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 December 31, 2011 the current ratio was 2.6 times.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

All covenants described above are calculated based on the IFRS Consolidated Financial Statements of Gerdau S.A., except item IV, which refers to the Metalúrgica Gerdau S.A. and has been met. The penalty for non-compliance with such financial covenants is the possibility of declaration of default by the creditors and loans having its maturity.

The Company has the objective of establishing a new financial covenant standard in which cash, cash equivalents and financial revenue are considered in the ratios calculations. In compliance with this strategy, the new financial agreements of the Company and its subsidiaries, which have financial covenants, follows the new standard. The new financial covenants standard applicable to items I and II above is: Net Debt / EBITDA  $\leq$  4 and EBITDA / Net Financial Expenses  $\geq$  3. The Global Credit Line (item b above) agreement already has the new financial covenants standard. As of December 31, 2011, the Net Debt / EBITDA was 2.0 times and EBITDA / Net financial expenses was 7.4 times.

Based on the Company's internal forecasts, the Company does not expect to be in breach of any of the financial covenants over the next twelve months. Nevertheless, this forecast can be affected positively or negatively by global economics and the steel market.

**f) Guarantees**

All loans contracted under the FINAME/BNDES program, totaling R\$ 76,404 on the date of the Consolidated Financial Statements, are guaranteed by the assets being financed. Certain other loans are guaranteed by the controlling shareholders, for which the Company pays a fee of 0.95% per year, over the amount endorsed.

**g) Credit Lines**

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and the former subsidiary Aços Villares S.A.) obtained a pre-approved credit line with BNDES in the total amount of R\$ 1,500,025 to be applied on revamp and modernization in several areas, increase in the production capacity of certain product lines, investment in logistics and energy generation, and also environmental and sustainability projects. The funds will be made available at the time each subsidiary start its specific investment and present to BNDES its respective certificate of accomplishment. The transaction bears interest rate of TJLP + 2.21% p.a. The transaction is guaranteed per guarantee and financial covenants of Metalúrgica Gerdau S.A.. As of December 31, 2011, the outstanding balance of this credit facility was R\$ 228,315.

Edgar Filing: GERDAU S.A. - Form 20-F

On May 27, 2008, Gerdau Aços Longos S.A. received a loan approval from BNDES (National Bank for Economic and Social Development) in the total amount of R\$ 543,413 for financing the construction of the Caçú / Barra dos Coqueiros hydroelectric complex with a grace period of 6 months after startup by October 2010. As of December 31, 2011, R\$ 537,434 of this credit facility had been used. The amortization will take place from November 2010 to October 2024, subject to TJLP (Long-term interest rate) + 1.46 % p.a.

**NOTE 14 DEBENTURES**

Issuance	General Meeting	Quantity as of December 31, 2011		Maturity	2011	2010
		Issued	Portfolio			
3rd- A and B	May 27, 1982	144,000	111,252	06/01/2021	113,717	115,069
7th	July 14, 1982	68,400	59,219	07/01/2012	41,688	40,717
8th	November 11, 1982	179,964	33,101	05/02/2013	435,676	463,656
9th	June 10, 1983	125,640	21,851	09/01/2014	32,261	14,452
11th - A and B	June 29, 1990	150,000	95,333	06/01/2020	162,591	98,077
<b>Total Consolidated</b>					785,933	731,971
Current					41,688	115,069
Non-current					744,245	616,902

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

On December 31, 2010, Debentures of the 3rd issuance had maturity on June 1, 2011, and were presented as Current. For the year ended on December 31, 2011, the maturity of this debentures issuance was changed to June 1, 2021, being classified as Non-current.

Maturities of long-term amounts are as follows:

	2011	2010
2012		40,717
2013	435,676	463,656
2014	32,261	14,452
After 2015	276,308	98,077
	744,245	616,902

The debentures are denominated in Brazilian reais, and they are not convertible into shares and have variable interest at a percentage of the CDI (Interbank Deposit Rate). The nominal annual interest rate was 11.60% and 9.75% as of December 31, 2011 and December 31, 2010, respectively.

## NOTE 15 - 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 and long-term investments, trade accounts receivable, trade accounts payable, Ten Years bonds, Term Loan Facility, other financing, payroll and related liabilities, debentures, related parties, unrealized gains on financial instruments, unrealized losses on financial instruments, other accounts receivable, other accounts payable and put options on non-controlling interests. These transactions are not conducted for speculative purposes nature and are intended to hedge the company against exchange rate fluctuations on foreign currency-denominated loans and against interest rate fluctuations.

The Company uses derivative instruments and non-derivatives as hedges of certain operations, and applies the hedge accounting methodology for some of these transactions.

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





## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011		2010	
	Book value	Market value	Book value	Market value
Cash and cash equivalents	1,476,599	1,476,599	1,061,034	1,061,034
Short-term investments	3,101,649	3,101,649	1,142,258	1,142,258
Trade accounts receivable	3,602,748	3,602,748	3,153,027	3,153,027
Trade accounts payable	3,212,163	3,212,163	1,783,274	1,783,274
Ten Years Bonds	7,582,966	8,002,218	6,709,187	7,167,676
Term Loan Facility			2,073,264	2,073,264
Other financing	5,314,629	5,314,629	5,155,573	5,155,573
Payroll and related liabilities	617,432	617,432	475,237	475,237
Debentures	785,933	785,933	731,971	731,971
Related parties (assets)	111,955	111,955	35,037	35,037
Related parties (liabilities)	6	6	722	722
Unrealized gains on derivatives	140	140	6,312	6,312
Unrealized losses on derivatives	5,327	5,327	92,476	92,476
Put options on minority interest	533,544	533,544	516,706	516,706
Other accounts receivable	464,592	464,592	408,941	408,941
Other accounts payable	756,971	756,971	767,191	767,191

The market value of Ten-Year bond Securities 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' business:**

**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 Company operates in a commodity market, its 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 Company constantly monitors the price variations in the domestic and international markets.

**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. In order 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 or other foreign currencies, 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.

**Credit risk:** this risk arises from the possibility of the Company not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the Company adopts 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

GERDAU S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company's Credit Committee.

**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 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/adjusted EBITDA, Interest Coverage Ratio, and Indebtedness/Equity Ratio. The Total Debt is composed of loans and financing (note 13) and debentures (note 14). 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.

The Company seeks to remain between the following parameters:

WACC	between 10% to 13% a year
Gross debt/EBITDA	between 2 and 3 times
Interest Coverage Ratio	greater than 5 times
Debt/Equity Ratio	between 40%-60% and 60%-40%

These key indicators are used for the objectives described above and may not be used as indicators for other purposes, such as impairment tests.

**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 at Notes 13 and 14, respectively.

The following are the contractual maturities of financial liabilities:

Contractual obligations	Total	2011			
		Less than 1 year	1-3 years	4-5 years	More than 5 years

Edgar Filing: GERDAU S.A. - Form 20-F

Trade accounts payable	3,212,163	3,212,163			
Short-term debt obligations	1,715,305	1,715,305			
Long-term debt obligations	11,182,290		2,431,794	518,323	8,232,173
Payroll and related liabilities	617,432	617,432			
Debentures	785,933	41,688	467,937		276,308
Related parties	6				6
Put option the remaining stake in PCS acquisition	4,723		4,723		
Put option granted to Santander Group on Corporación Sidenor acquisition	528,821	528,821			
	<b>18,046,673</b>	<b>6,115,409</b>	<b>2,904,454</b>	<b>518,323</b>	<b>8,508,487</b>

Contractual obligations	Total	Less than 1 year	2010		
			1-3 years	4-5 years	More than 5 years
Trade accounts payable	1,783,274	1,783,274			
Short-term debt obligations	1,577,968	1,577,968			
Long-term debt obligations	12,360,056		4,137,227	790,504	7,432,325
Payroll and related liabilities	475,237	475,237			
Debentures	731,971	115,069	504,373	14,452	98,077
Related parties	722				722
Put option the remaining stake in PCS acquisition	40,341	40,341			
Put option the remaining stake in Sipar acquisition	11,497			11,497	
Put option granted to Santander Group on Corporación Sidenor Acquisition	464,868			464,868	
	<b>17,445,934</b>	<b>3,991,889</b>	<b>4,641,600</b>	<b>1,281,321</b>	<b>7,531,124</b>

F-51

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## Sensitivity analysis

The Company performed the following sensitivity analysis:

## Impacts on Statements of Income

Assumptions	Variance	2011
Foreign currency sensitivity analysis	5%	51,594
Interest rate sensitivity analysis	0.1%	74,285
Price products sensitivity analysis	1%	354,068
Sensitivity analysis of changes in sales price of products and price of raw materials	1%	219,458
Sensitivity analysis of interest rate swaps	0.1%	1,382
Sensitivity analysis of NDF s (Non Deliverable Forwards)	5%	6,505

**Foreign currency sensitivity analysis:** the Company is exposed to variations in foreign currency, especially in loans and financing in the amount of US\$ 550.1 million. 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 Consolidated Financial Statements. As of December 31, 2011, the Company is mainly exposed to variations between Brazilian real and US Dollar, since the loans taken by the other than Brazilian subsidiaries of the Company are mainly in the same currency of the functional currency of each subsidiary, and because of this aspect, these loans do not expose the Company to variations in foreign currency. The impact calculated considering such variation in the foreign exchange rate totals R\$ 51,594 as of December 31, 2011 (R\$ 88,535 as of December 31, 2010) and represents an income if an appreciation of the Brazilian real against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian real against the US Dollar.

The net amounts related to accounts receivable and accounts payable in foreign currency do not present relevant risks related to exchange rates fluctuation.

**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 Consolidated Financial Statements. The impact calculated considering this variation in the interest rate totals R\$ 74,285 as of December 31, 2011 (R\$ 77,516 as of December 31, 2010) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates that the Company is exposed of, which are related to loans, financing, and debentures are described in Notes 13 and 14, and are mainly comprised of Libor and CDI Interbank Deposit Certificate rates.

**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 totals R\$ 354,068 as of December 31, 2011 (R\$ 313,932 as of December 31, 2010) and raw materials and other inputs totals R\$ (219,458) as of December 31, 2011 (R\$ (182,126) as of December 31, 2010). The impact on the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

**Sensitivity analysis of interest rate swaps:** the Company has an interest rate swaps exposure for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 0.1% in the interest curve (Libor), and its impacts in the swaps mark to market. An increase of 0.1% change in the interest rates represents an income of R\$ 1,382 (income of R\$ 3,347 as of December 31, 2010) and a decrease of 0.1% change in the interest rates represents an expense of R\$ 1,382 (expense of R\$ 3,347 as of December 31, 2010). All these swaps were contracted to hedge debt positions from floating to fix (Liability). As of December 31, 2011, these effects would be recognized in statement of income in the amount of R\$ 1,382 (R\$ 311 in the Consolidated Statements of Income and R\$ 3,036 in the Consolidated Statements of Comprehensive Income as of December 31, 2010). The effects

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

of changes in cash flow hedges are recorded in the statement of income. The interest rate swaps to which the Company is exposed to are presented at note 15.e.

**Sensitivity 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 sensitivity analysis calculated by the Company considers an effect of a 5% depreciation or appreciation of the US Dollar against the Brazilian Real and the Colombian Peso, and its effects on these derivatives mark to market. An increase of 5% on the US Dollar against these currencies represents an expense of R\$ 6,505 (R\$ 3,941 as of December 31, 2010) and a decrease of 5% on the US Dollar against these currencies represents an income of R\$ 6,505 (R\$ 3,941 as of December 31, 2010). These NDF s were contracted to hedge asset positions (Exports). These effects would be recognized in the statement of income. The NDF s to which the Company is exposed are presented in note 15.e.

## d) Financial Instruments per Category

Summary of the financial instruments per category:

December 31, 2011	Loans and receivables	Assets at fair value with gains and losses recognized in income	Assets at fair value with gains and losses recognized in shareholder s equity	Total
<b>Assets</b>				
Cash and cash equivalents	1,476,599			1,476,599
Short-term investments		3,095,359	6,290	3,101,649
Unrealized gains on financial instruments		140		140
Trade accounts receivable	3,602,748			3,602,748
Related parties	111,955			111,955
Other accounts receivable	464,592			464,592
<b>Total</b>	<b>5,655,894</b>	<b>3,095,499</b>	<b>6,290</b>	<b>8,757,683</b>
Financial income	379,651	276,645		656,296
	<b>Liabilities at market value with gains and losses recognized in the result</b>	<b>Liabilities at fair value with gains and losses recognized in shareholder s equity</b>	<b>Other financial liabilities at amortized cost</b>	<b>Total</b>
<b>Liabilities</b>				
Trade accounts payable			3,212,163	3,212,163
Ten Years Bonds			7,582,966	7,582,966
Other financing			5,314,629	5,314,629
Payroll and related liabilities			617,432	617,432
Debentures			785,933	785,933

Edgar Filing: GERDAU S.A. - Form 20-F

Related parties		6	6
Other accounts payable		756,971	756,971
Put options on minority interest	533,544		533,544
Unrealized losses on financial instruments	5,327		5,327
<b>Total</b>	538,871	18,270,100	18,808,971
Financial income	(96,909)	(1,087,723)	(1,184,632)

<b>December 31, 2010</b>		<b>Assets at fair value with gains and losses recognized in income</b>	<b>Assets at fair value with gains and losses recognized in shareholder s equity</b>	<b>Total</b>
<b>Assets</b>	<b>Loans and receivables</b>			
Cash and cash equivalents	1,061,034			1,061,034
Short-term investments		1,105,902	36,356	1,142,258
Unrealized gains on financial instruments		6,312		6,312
Trade accounts receivable	3,153,027			3,153,027
Related parties	35,037			35,037
Other accounts receivable	408,941			408,941
<b>Total</b>	4,658,039	1,112,214	36,356	5,806,609
Financial income	148,361	198,973		347,334

F-53



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Liabilities	Liabilities at market value with gains and losses recognized in the result	Liabilities at fair value with gains and losses recognized in shareholder s equity	Other financial liabilities at amortized cost	Total
Trade accounts payable			1,783,274	1,783,274
Ten Years Bonds			6,709,187	6,709,187
Term Loan Facility			2,073,264	2,073,264
Other financing			5,155,573	5,155,573
Payroll and related liabilities			475,237	475,237
Debentures			731,971	731,971
Related parties			722	722
Other accounts payable			767,191	767,191
Put options on minority interest	516,706			516,706
Unrealized losses on financial instruments	59,273	33,203		92,476
<b>Total</b>	<b>575,979</b>	<b>33,203</b>	<b>17,696,419</b>	<b>18,305,601</b>
Financial income	(71,822)		(960,826)	(1,032,648)

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 financial instruments, 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 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 final 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 from 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 Consolidated Financial Statements of the Company.

By internal policy, the Company does not maintain a debt in a currency in which there is no corresponding cash generation.

**Policy for use of derivatives:** according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. Therefore, it 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 criteria to determine 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. The methods and assumptions take into consideration the interpolation of curves, such as in the case of LIBOR, and according to each market where the company has exposure. The swaps, both on the asset and on the liability side, are estimated in separate and discounted to present value. The difference in the result between extremities generates the swaps market value.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The amounts 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.

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 (NDFs)**

Subsidiary Cleary Holdings settled the NDF s that were designated as cash flow hedges which matured on February 4, 2011 and March 4, 2011. These NDF s were contracted to hedge against the exchange fluctuations of the US dollar in relation to the local currency, which could impact its export revenue and, therefore, impair its margins. As of December 31, 2011, these NDF s generated a gain of R\$ 370, which were presented in the account Gains and losses on financial instruments, net in the consolidated statement of income. The counterparty to this transaction was Banco de Bogota (Bogota Bank).

Subsidiary Cleary Holdings settled the NDF s that were designated as cash flow hedges which matured on December 22, 2011. These NDF s were contracted to hedge against the exchange fluctuations of the US dollar in relation to the local currency, which could impact its export revenue and, therefore, impair its margins. As of December 31, 2011, these NDF s generated a loss of R\$ 316, which were presented in the account Gains and losses on financial instruments, net in the consolidated statement of income. The counterparty to this transaction was Banco de Bogota (Bogota Bank).

Subsidiary Diaco S.A. settled forward designated as cash flow hedge, which matured on April 7, 2011. These transactions were contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. As of December 31, 2011, the effect of this instrument in the statement of income was a loss of R\$ 106, which were presented in the account Gains and losses on financial instruments, net in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

Subsidiary Diaco S.A. settled forward designated as cash flow hedges, which matured on October 7, 2011. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. As of December 31, 2011, the effect of this instrument in the statement of income was a loss of R\$ 505 which were presented in the account Gains and losses on financial

## Edgar Filing: GERDAU S.A. - Form 20-F

instruments, net in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

Subsidiary Diaco S.A. contracted Non Deliverable Forwards designated as cash flow hedges, with notional amount of US\$ 10.0 million (R\$ 18,758 as of December 31, 2011) with maturity date on September 24, 2012. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. The fair value of this contract represents a gain of R\$ 140 and it was presented in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

Subsidiary Diaco S.A. contracted Non Deliverable Forwards designated as cash flow hedges, with notional amount of US\$ 60.0 million (R\$ 112,548 as of December 31, 2011) with maturity date on December 12, 2012. This transaction was contracted to hedge against the exchange exposure arising on the US dollar denominated financing with Davivienda Bank. The fair value of this contract represents a loss of R\$ 314 and it was presented in the consolidated statement of income. The counterparty to this transaction is Banco Davivienda.

The prospective and retrospective testing made for above financial instruments did not identify any amount of ineffectiveness.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**Swap Contracts**

**Interest rate swap**

The subsidiary Gerdau Ameristeel Corp. settled in advance interest rate swap contract qualified as a cash flow hedge with mature between March 2012 and September 2013. These operations were contracted 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. As of December 31, 2011 the effect of these swaps in the statement of income was a loss of R\$ 68,698, which was presented in the account Gains and losses on financial instruments, net in the consolidated statement of income. The counterparts to this transaction were ABN Amro Bank, HSBC, and JP Morgan.

The Company through its subsidiary GTL Equity Investments Corp. settled swap of Exchange Coupon versus Libor with the bank JP Morgan which matured between December 21, 2010 and December 21, 2011. This operation was entered into in order to take advantage of 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. The fair value adjustment of these contracts as of December 31, 2011 results in a gain of R\$ 3,722 which were presented in the account Gains and losses on financial instruments, net.

The subsidiary Siderúrgica del Perú S.A.A. - Siderperú entered into a Libor 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 has a notional value of US\$ 35.71 million (R\$ 66,985 as of December 31, 2011) and maturity date on April 3, 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 adjustment of this contract as of December 31, 2011 results in a net loss of R\$ 3,674 presented in the statement of income. The counterparty to this transaction is Banco Bilbao Vizcaya -BBVA.

The subsidiary Gerdau Açominas S.A. entered into an interest rate swap with a notional value of US\$ 350 million (R\$ 656,530 as of December 31, 2011) and a maturity date of June 22, 2015, on which the financial charges agreed on the debt contract with Banco do Brasil, equivalent to LIBOR plus a percentage of interest, are exchanged for pre-determined interest rates. The fair value adjustment of this contract as of December 31, 2011 results in a net loss of R\$ 1,339 presented in the statement of income. The counterparts of this operation are the following banks: HSBC, Citibank and Morgan Stanley.

**Guarantee Margins**

Edgar Filing: GERDAU S.A. - Form 20-F

The Company has contracts of derivative financial instruments, which establish the possibility of deposits constitution and/or guarantee margins when the mark-to-market amounts of these instruments exceed the limits established in each contract. As of December 31, 2011, there were no margin calls for any of the above contracts.

The derivatives instruments can be summarized and categorized as follows:

F-56

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Contracts for Asset Protection	Position	Notional value		Recognized value				Fair value	
		2011	2010	Net income	Shareholder s equity	Amount receivable	Amount payable	2011	2010
<b>Forward</b>									
Aços Villares S.A.					10,755				
Diaco S.A			US\$5,07 million	(106)	209			206	
Diaco S.A			US\$5,04 million	(505)	66			66	
Diaco S.A		US\$10,0 milion		(140)			140		
Diaco S.A		US\$60,0 milion			314				(314)
Cleary Holdings					(143)				
Cleary Holdings			US\$20,0 million	297	383			383	
Cleary Holdings			US\$17,5 million	73	128			128	
Cleary Holdings				(316)					
				(383)	11,398		140	783	(314)
<b>Swap contracts</b>									
<b>Interest rate swap</b>									
Aços Villares S.A.	receivable edge	Libor 6M + 1,94%				(501)			
	payable edge	6.95%							
Siderúrgica del Perú S.A.A. - Siderperú	receivable edge	Libor 6M + 0,90%	US\$35,71 milhões		US\$50,0 million	1,260	(2,795)		(3,674)
	payable edge	5.50%							(6,064)
Gerdaul Ameristeel Corp.	receivable edge	Libor 6M + 1,37%			US\$1 billion	(68,698)		(33,203)	
	payable edge	3.48%							(79,340)
Gerdaul Açominas S.A.	ponta ativa	Libor 6M + 2,30%	US\$350,0 milion			(1,339)			(1,339)
	ponta passiva	3.28%							
GTL Equity Investments Corp.	receivable edge	Libor 6M					(193)		
	payable edge	3.48%							
GTL Equity Investments Corp.	receivable edge	4,51% a.a.			US\$100 million	3,722	4,483		5,529
	payable edge	3,51% a.a.							(7,072)
						(65,055)	994	(33,203)	5,529
						(65,438)	12,392	(33,203)	140
								6,312	(5,013)
									(92,476)
									(92,476)

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

	2011	2010
<b>Unrealized gains on derivatives</b>		
Current assets	140	783
Non-current assets		5,529
	140	6,312
<b>Unrealized losses on derivatives</b>		
Current liabilities	(314)	
Non-current liabilities	(5,013)	(92,476)
	(5,327)	(92,476)
<b>Net effect</b>	(5,187)	(86,164)

#### f) Put options on non-controlling 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 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 interest of 40% in Sidenor was 165,828 (R\$ 432,577). The Santander Group has the option to sell its interest in Sidenor to the Company after 5 years to 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. On December 23, 2010, the Santander Group and the Company renewed the put option on Sidenor interest and the new maturity date is January 10, 2014, and can be settled in advanced in January at each year after 2012. The option amount is 208,648 (R\$ 464,868), updated according to the fixed interest rate. 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 non-controlling interest . As a result of the recognition of this potential obligation, the Company has recognized since the acquisition date, an additional interest of 40% of Sidenor as its investment. As of December 31, 2011, such potential obligation totaled R\$ 528,821 (R\$ 464,868 as of December 31, 2010).

The Company had the call option for 16% of the remaining stake in Pacific Coast Steel (PCS) and the non-controlling shareholders also had the option to sell the remaining 16% interest in PCS to the Company. The option was exercised in



**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

2011 for US\$ 23 million (R\$ 38.8 million) with payment in November 1, 2011, leaving an option for the remaining 1% interest with a fixed price of US\$ 3 million, which can be exercised by the Company as from November 1, 2011, while the put option held by minority shareholders shall not be exercised before November 1, 2014. On December 31, 2011, the amount recognized as a potential obligation amounts to R\$ 4,723 (US\$ 40,341 at December 31, 2010). As a result of this additional interest acquired, the line of non-controlling interests was reduced by the amounts of interest acquired.

The Company had a call option of 7.25% of Sipar Gerdau Inversiones S.A. and the non-controlling shareholders of this entity had the option to sell its 7.25% of its remaining interest to the Company. The option was exercised on April 1, 2011, with payment forecasted to be up to February, 2015, in the amount of US\$ 7,590 thousand (R\$ 11,941) regarding the acquisition of 7.25% interest in this subsidiary. As a result of this additional interest acquired, the line of non-controlling interests was reduced by the amounts of interest acquired.

**g) Net investment hedge**

Based on IFRIC Interpretation 16 issued in July 2008, and substantiated by IAS 39, the Company designated as hedge of part of its net investments in subsidiaries abroad the operations of Ten Year Bonds, contracted by the subsidiary GTL Trade Finance Inc., in the amount of US\$ 1.5 billion and by the subsidiary Gerdau Trade Inc., in the amount of US\$ 1.25 billion, and also loan operations of the subsidiary Gerdau Açominas S.A. in the amount of US\$ 701.1 million, which were made in order to provide part of the resources for these investments in acquisitions abroad. Based on the standard and interpretation of standard mentioned above, the Company demonstrated high effectiveness of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in the statement of Comprehensive Income as an unrealized loss in the amount of R\$ 788,007 (gain of R\$ 130,750 as of December 31, 2010).

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.

**h) Fair value measurement**

IAS 32 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. IFRS 7 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. This IFRS describes the three levels of information to be used to measure fair value:

## Edgar Filing: GERDAU S.A. - Form 20-F

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, because market activity is insignificant or does not exist.

As of December 31, 2011, 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 and subject to disclosure requirements of IFRS 7 as of December 31, 2011, are as follows:

F-58

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Fair Value Measurements at Reporting Date Using							
			Quoted Prices Active Markets for Identical Assets (Level 1)		Quoted Prices in Non-Active Markets for Similar Assets (Level 2)		Significant Unobservable Inputs (Level 3)	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Current assets</b>								
Short-term investments								
Trading	3,095,359	1,105,902	2,825,908	724,902	269,451	381,000		
Available for sale	6,290	9,559	6,290	9,559				
Financial instruments	140	783			140	783		
<b>Non-current assets</b>								
Long-term investments								
Available for sale		26,797						26,797
Financial instruments		5,529				5,529		
	3,101,789	1,148,570	2,832,198	734,461	269,591	387,312		26,797
<b>Current liabilities</b>								
Financial instruments								
Put options on minority interest	314				314			
PCS								
<b>Non-current liabilities</b>								
Financial instruments								
Put options on minority interest	5,013	92,476			5,013	92,476		
PCS								
Sidenor	4,723	40,341					4,723	40,341
Sipar	528,821	464,868					528,821	464,868
		11,497						11,497
	538,871	609,182			5,327	92,476	533,544	516,706
	3,640,660	1,757,752	2,832,198	734,461	274,918	479,788	533,544	543,503

Changes in the measurements using significant unobservable inputs (Level 3):

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Assets
Balance as of December 31, 2010	26,797
(+) Interests and other contractual obligations	28,463
(+) Gains and losses on conversion	3,372
(-) Sales of investments	(58,632)
Balance as of December 31, 2011	

	Liabilities
Balance as of December 31, 2010	516,706
(+) Interests and other contractual obligations	9,174
(+) Gains and losses on conversion	62,304
(-) Write-off on put options on minority interest	(54,640)
Balance as of December 31, 2011	533,544
	533,544

	Assets
Balance as of December 31, 2009	49,690
(-) Interests and other contractual obligations	(9,896)
(-) Gains and losses on conversion	(2,140)
(-) Sales of investments	(10,857)
Balance as of December 31, 2010	26,797

	Liabilities
Balance as of December 31, 2009	518,096
(+) Interests and other contractual obligations	54,022
(-) Gains and losses on conversion	(55,412)
Balance as of December 31, 2010	516,706
	543,503

## NOTE 16 TAXES PAYABLE

	2011	2010
Income tax and social contribution taxes	92,379	57,376
Payroll charges	164,703	130,369
ICMS (state VAT)	66,625	79,831
COFINS (tax on revenue)	6,515	14,404
IPI (federal VAT)	1,409	4,010
PIS (tax on revenue)	1,071	2,842
Withholding income tax	59,919	36,090
Taxes in installments	86,478	107,441
IVA (value-added tax) and others	112,884	92,604
	591,983	524,967



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## NOTE 17 PROVISIONS FOR TAX, CIVIL AND LABOR CLAIMS

The Company and its subsidiaries are parties in judicial and administrative proceedings involving labor, civil and tax matters. Based on the opinion of its legal counsel, the 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-economic position, operational results and liquidity of the Company and its subsidiaries as of December 31, 2011.

The provisions were made considering the management and their legal advisors judgment for proceedings with probable expectation of losses, considering that amount of provisions enough to cover expected losses. The provisions balances are as follows.

## I) Provisions

		2011	2010
a) Tax provisions			
ICMS (state VAT)	(a.1)	19,960	48,946
CSLL (social contribution tax)	(a.2)	70,276	64,179
IRPJ - Corporate Income Tax	(a.3)	1,427	699
INSS (social security contribution)	(a.4)	20,672	20,531
ECE (Emergency Capacity Charge)	(a.5)	36,733	33,832
RTE (Extraordinary Tariff Adjustment)	(a.5)	23,963	22,026
II (import tax)/IPI (excise tax) Drawback	(a.6)	989	1,070
PIS (financing of social integration program)/COFINS (social security financing)	(a.7)	485,412	268,383
Other tax provisions	(a.8)	13,220	13,213
		672,652	472,879
b) Labor provisions	(b)	217,696	160,026
c) Civil provisions	(c)	17,370	12,470
		907,718	645,375

## 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)** This lawsuit refers to the constitutionality of the tax and the tax basis. Provisions were updated as required by law.

**a.3)** Discussion related to Corporate Income Tax (IRPJ), being discussed in the administrative level.

**a.4)** Discussion related to social securities contributions.

**a.5)** Emergency Capacity Charge (ECE) and Extraordinary Tariff Recomposition (RTE) are charges required in the electricity bills of industrial units. The Supreme Court declared the constitutionality of the ECE (emergency capacity charge), which is the reason why the provision will be reversed as the judicial discussions are declared finished, against the deposit made of the full amount under discussion. For the RTE (extraordinary tariff adjustments), the Company believes that the charge is a tax nature, and, as such, are incompatible with the National Tax System and for this reason the constitutionality of these charges is being challenged in court. Lawsuits are in progress in the Federal, Regional, and Superior Courts of Justice. The Company has fully deposited in court the amounts of the charges under discussion.

**a.6)** Provision related to discussion about the tax credit right.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**a.7)** Provision related to PIS credit compensations, discussions related to the deduction of State VAT (ICMS) from the Social Integration Program Tax on Revenue (PIS), Social Security Funding Tax on Revenue (COFINS) tax basis. The Company has fully deposited in court the amounts under discussion.

**a.8)** The provision was recorded, considering the legal counsel's and management's opinion, for lawsuits assessed as probable loss, in an amount sufficient to cover expected losses.

**b) Labor Provision**

The Company and its subsidiaries are party to labor claims. None of these claims involve significant amounts and refer mainly to overtime pay, health hazard premium, and hazardous duty premium, among others.

**c) Civil Provision**

The Company and its subsidiaries are also a party to civil lawsuits arising in the normal course of its business, which totaled as of December 31, 2011 the amount shown as provision liabilities.

The changes in the tax, labor and civil provisions are shown below:

	<b>2011</b>	<b>2010</b>
Balance at the beginning of the year	645,375	447,171
(+) Amounts accrued against expense	359,018	382,507
(-) Reversal of amounts against income	(97,994)	(183,415)
(+) Foreign exchange effect on provisions in foreign currency	1,319	(888)
Balance at the end of the year	907,718	645,375

**II) Non accrued contingent liabilities**



**a) Tax contingencies**

**a.1)** The Company is a defendant in a tax collection action filed by the state of Minas Gerais demanding ICMS tax payments mainly on sales of products to commercial exporters. The updated amount of the action is R\$ 59,636. The Company did not record any provision since it considers the tax undue because products for export are exempted from ICMS (state VAT).

**a.2)** The Company is a defendant in tax collection proceedings seeking ICMS tax payments on the export of semi-finished manufactured products. The total amount is currently R\$ 80,218. The Company did not record any provision since it believes that this tax is not owed because its products cannot be considered semi-finished manufactured products.

**a.3)** The Company and its subsidiary Gerdau Aços Longos S.A. have other lawsuits related to the ICMS (state VAT) which are mostly related to credit rights and rate differences, whose demands reach a total of R\$ 83,589. An accounting provision was not made for these demands since they were considered as possible loss, but not probable, by management with the assistance of its legal advisors.

**a.4)** The subsidiaries Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., have a discussion related to IRPJ Corporate Income Tax and CSLL Social Contribution Tax in a current amount of R\$ 1,234,678, related to profits abroad from the years of 2005 to 2007. An accounting provision was not made for these demands since its probability for loss is classified as possible, but not probable, by management with the assistance of its legal advisors.

**a.5)** The Company and its subsidiaries, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., Gerdau Comercial de Aços S.A. and Gerdau Açominas S.A., discuss, administratively, the disallowance of the deductibility of goodwill related to the reorganization carried out in 2005, pursuant to article 7 and 8 of Law 9532/97, regarding the basis for calculating IRPJ and CSLL, of the years 2005 to 2010. The total current amount of the discussions is R\$ 2,664,440. An

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

accounting provision was not made for these demands since its probability for loss is classified as possible by management with the assistance of its legal advisors.

**a.6)** The Company and its subsidiaries Gerdau Açominas S.A. e Gerdau Aços Longos S.A. are parties to the lawsuits relating to other taxes. The total amount of these lawsuits is R\$ 137,959. No provision has been recorded for these lawsuits since they were assessed as possible loss, but nor probable, by management with the assistance of its legal advisors.

**b) Civil contingencies**

**b.1)** A lawsuit arising from the representation of two civil construction unions in the state of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus, violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE), the final opinion were that a cartel exists. The lawsuit was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment.

In May 2004, Gerdau S.A. filed a new lawsuit with the purpose of annulling the administrative proceeding grounded on formal irregularities found in its discovery.

CADE, regardless of the request for submission of negative evidence of cartel made by Gerdau S.A., judged the merits of the administrative proceedings on September 23, 2005 and, by a majority of votes, fined the Company and other long steel producers an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes, for formation of a cartel.

Despite the CADE decision, the legal action filed by Gerdau S.A. follows its normal course and, at present, awaits judgment in the lower court. In the event the procedure irregularities alleged by Gerdau are recognized by the court, the CADE decision may be annulled.

Furthermore, to reverse the terms of the decision by CADE, Gerdau appealed to the Judiciary on July 26, 2006 by bringing a new ordinary suit that not only ratifies the terms of the first suit, but also points out the irregularities found during the course of the administrative proceeding. On August 30, 2006, Gerdau was successful in obtaining legal protection in order to suspend the effects of CADE's decision until the Judge's final decision. The judicial guarantee was performed by a bank guarantee corresponding to 7% on the gross income before taxes calculated in 1999 (R\$ 245,070).

It should be noted that just prior to the CADE decision, the Public Prosecution Office of the state of Minas Gerais filed a Public Civil Action, based on the above-mentioned SDE decision, and, without mentioning any new elements, alleged that the Company was involved in activities which violated the antitrust legislation. Gerdau S.A. contested this allegation on July 22, 2005.

The Company denies having been part of any type of anti-competitive conduct and believes based on information available, including the opinion of its legal counsel, which the administrative proceeding until now includes irregularities, some of which are impossible to resolve. In relation to the merit, Gerdau is sure that it did not practice the alleged conduct and, supported by the opinion of renowned experts, believes that it is more likely than not to reverse its conviction.

**b.2)** Civil lawsuit filed by Sul América Seguradora against Gerdau Açominas S.A. and a third party to require acceptance of payment of R\$ 34,383 to settle an indemnity claim. The insurance company pleaded doubt in relation to whom payment should be made and alleged that the Company is resisting receiving the payment and settling the matter. These doubts were refuted in the defense and the consigned amount was demonstrated to be insufficient. This was raised in December 2004 and the legal action continues in order to calculate the actual amount due.

Based on the opinion of its legal advisors, the Company's expectation for loss is remote. It also expects that the ruling will declare the amount payable to be the amount stated in the appeal filed by the Company. Prior to this lawsuit, Gerdau

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

Açominas S.A. filed a collection lawsuit for the amounts recognized by the insurance company for which it also expects a favorable outcome.

These lawsuits arose from an accident with the blast furnace regenerators on March 23, 2002, which resulted in loss of production, material damages, and loss of profits. In 2002 it sued for indemnities of approximately R\$ 110 million based on the costs incurred during the period for equipment downtime and immediate expenses incurred to temporarily recover the equipment. Subsequently, new amounts were added to the dispute, as stated in the Company's plea, although not yet recorded. The case is still in the hands of the court appointed engineering and accounting experts.

Management considers that the risk of losses from other contingencies affecting the net income of operations or the consolidated financial position of the Company is not more likely than not.

**III) Judicial deposits**

The Company has judicial deposits related to tax, labor and civil lawsuits as listed below:

	<b>2011</b>	<b>2010</b>
Tax	666,681	458,458
Labor	37,829	31,631
Others	8,970	3,413
	713,480	493,502

GERDAU S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

NOTE 18 - RELATED-PARTY TRANSACTIONS

a) Intercompany loans

	2011	2010
<b>Assets</b>		
<b>Associate Companies</b>		
Armacero Ind. Com. Ltda.	63	154
<b>Controlling shareholders</b>		
Metalúrgica Gerdau S.A.	29,901	5
<b>Others</b>		
Fundação Gerdau	76,573	23,214
Gerdau Corsa SAPI de C.V.	5,209	11,542
Others	209	122
	111,955	35,037
<b>Liabilities</b>		
<b>Parent company</b>		
Metalúrgica Gerdau S.A.		(710)
<b>Others</b>		
Others	(6)	(12)
	(6)	(722)
	111,949	34,315

	2011	2010	2009
Net financial income	4,388	145	658

b) Financial transactions

	2011	Income (expenses) 2010	2009
<b>Owners</b>			
Banco Gerdau S.A. - CDB			1,480
Indac - Ind. Adm. e Comércio S.A. (*)	(21,324)	(24,717)	(22,108)

---

(\*) Guarantees granted of loans.

c) **Guarantees granted**

The Company is the guarantor of the associate company Dona Francisca S.A. for financing contracts totaling R\$ 23,991 as of December 31, 2011, corresponding to a joint liability of 51.82% of the amount.

The Company has guaranteed the financing contracts of the subsidiary Gerdau Açominas S.A. in the amounts of R\$ 1,458,268 as of December 31, 2011.

F-65

---

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The Company is a guarantor of subsidiary Empresa Siderúrgica del Perú S.A.A. Siderperú in a syndicated loan with an approved cap of US\$ 150 million (R\$ 281,370 as of December 31, 2011). On December 31, 2011, the amount disbursed totaled US\$ 8 thousand (R\$ 15). The Company is also the guarantor of this subsidiary in an extended credit facility of US\$ 70 million (R\$ 131,306 as of December 31, 2011).

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 of GTL Trade Finance Inc. regarding the Ten Years Bonds in the amount of up to US\$ 1.5 billion (R\$ 2,813,700 as of December 31, 2011).

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, equivalent to US\$ 35 million (R\$ 65,653 as of December 31, 2011).

The Company provides guarantee for its subsidiary Gerdau Aços Especiais S.A. in a purchase contract of electric energy in the total amount of R\$ 8,354 as of December 31, 2011.

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 Gerdau Holdings Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2,344,750 as of December 31, 2011).

The Company is a guarantor of associate Industrias Nacionales C. por A. in an agreement with BNP Paribas to finance constructions and auxiliary equipment totaling US\$ 25 million (R\$ 46,895 as of December 31, 2011). The Company is also guarantor of the same associate in an agreement with BNP Paribas to finance 85% of the main limited to US\$ 34.9 million (R\$ 65,465 as of December 31, 2011). On this date the amount disbursed totaled US\$ 32.9 million (R\$ 61,672).

The Company provides guarantee to a line of credit to working capital to its associate Gerdau Corsa SAPI de C.V., with Banco BBVA, in the amount of US\$ 44.5 million (R\$ 83,473 as of December 31, 2011).

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 Gerdau Trade Inc. for the issuance of bonus with a maturity of 10 years (Ten Years Bond) in the amount of US\$ 1.25 billion (R\$ 2,344,750 as of December 31, 2011).

## Edgar Filing: GERDAU S.A. - Form 20-F

The Company is the guarantor of subsidiary Gerdau Açominas S.A. in a financing agreement with Santander Bank in the amount of US\$ 40.5 million (R\$ 75,970 as of December 31, 2011).

The Company is the guarantor of subsidiary Empresa Siderúrgica Del Peru S.A.A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 80 million (R\$ 150,064 as of December 31, 2011).

The Company is the guarantor of the associate Industrias Nacionales C. por A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 60.9 million (R\$ 114,154 as of December 31, 2011).

The Company is the guarantor of subsidiary Diaco S.A., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 10 million (R\$ 18,758 as of December 31, 2011), US\$ 35 million (R\$ 65,653 as of December 31, 2011) and US\$ 60 million (R\$ 112,548 as of December 31, 2011).

The Company is the guarantor of subsidiary Aceros Corsa S.A. de C.V., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 73 million (R\$ 136,970 as of December 31, 2011).



**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The Company is the guarantor of subsidiary Siderúrgica Tultitlán S.A. de C.V., co-borrower of a global credit line to improve the debt structure and financing of working capital in the amount of US\$ 10.9 million (R\$ 20,434 as of December 31, 2011).

**d) Debentures**

Debentures are held by parent companies, directly or indirectly, in the amount of R\$ 490,931 as of December 31, 2011 (R\$ 456,397 as of December 31, 2010), which corresponds to 149,462 debentures (161,071 as of December 31, 2010).

**e) Price and charge conditions**

Loan agreements between Brazilian companies are adjusted by the monthly variation of the CDI (Interbank Deposit Certificate), which was 11.6% in December 31, 2011 (9.75% in December 31, 2010). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable. The sales and purchases of inputs and products are made under terms and conditions agreed between the parties under normal market conditions.

**f) Management compensation**

Gerdau S.A. paid to its management salaries and variable compensation a total amount of R\$ 50,548 in December 31, 2011 (R\$ 42,302 in December 31, 2010). In 2011, the contributions of Gerdau S.A. to management's pension plans totaled R\$ 0 Defined benefit pension plan and R\$ 1,190 Defined contribution pension plan (R\$ 415 and R\$ 379 in December 31, 2010, respectively).

The stock options granted to management members is as follows:

	2004	2005	2005	2006	2007	2008	2009	2010	2011	Accumulated stock options
Beginning of vesting period										
Exercises from	jan/09	jan 10	jan/08	jan/11	jan/12	jan/13	jan/14	jan/15	jan/16	
Exercises until	dec/13	dec/14	dec/14	dec/15	dec/16	dec/17	dec/18	dec/19	dec/20	

Edgar Filing: GERDAU S.A. - Form 20-F

Exercise price per share (R\$)	6.78	10.58	10.58	12.86	17.50	26.19	14.91	29.12	22.61	
Total granted to Board members	671,283	579,349	277,439	1,144,789	872,571	674,563	1,249,153	680,965	266,940	6,417,052
Exercised options	54,301	40,598	39,800	18,237						152,936
Canceled options				14,253	11,143	7,743	13,602	7,411	6,369	60,521

The cost with long-term incentive plans recognized in income attributable to members of Board of Directors and Management, totaled R\$ 8,325 as of December 31, 2011 (R\$ 7,230 on December 31, 2010).

**NOTE 19 EMPLOYEE BENEFITS**

Considering all kinds of employee benefits granted by the Company and its subsidiaries, assets and liabilities as of December 31, 2011, are as follow:

	<b>2011</b>	<b>2010</b>
Actuarial assets - Defined contribution pension plan	533,740	437,072
Total assets	533,740	437,072
Actuarial liabilities - Defined benefit pension plan	473,450	382,857
Actuarial liabilities - Post-employment health care benefit	343,552	272,302
Retirement and termination benefit liabilities	272,782	179,312
Total liabilities	1,089,784	834,471

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## a) Post-employment defined benefit pension plan

The Company is the co-sponsors of defined benefit pension plans for almost all employees ( Açominas Plan and Gerdau Plan ). Includes the Brazilian plans which are managed by Gerdau - Sociedade de Previdência Privada, a pension entity that provides benefits that supplement the social security benefits of employees and retirees of the Company and subsidiaries in Brazil. The assets of these Plans consist mainly of investments in bank deposit certificates, federal government securities and marketable securities. The Açominas Plan is a plan wholly funded by the entity and its employees contributions and the Gerdau Plan is a plan wholly funded by the entity contributions.

On October 14, 2010, the Company, through Gerdau - Sociedade de Previdência Privada, approved in PREVIC (regulatory public agency for complementary social security in Brazil) the settlement of defined benefit plan ( Plano Gerdau and Plano Açominas ), in which the participants have the rights for the benefit settled. All participants of these plans, now settled, were able to: (i) choose to adhere a new defined contribution plan, when it was authorized to transfer the amount related to the individual mathematical reserve from the settled plan for the new plan and add amounts to this reserve through future contributions and sponsors, plus the profitability resources; or (ii) do not transfer the reserve and maintain the benefit settled in the defined benefit plan, adjusted by the INPC (National Index of Consumer Prices). The new contribution defined plan was developed after analysis on the best complementary social security plans in Brazil, and based on the profile and the employees frequent necessities. The main objective is to offer a plan aligned with the market best practices.

Additionally, the Canadian and American subsidiaries sponsor defined benefit plans (Canadian Plan and American Plan) and together they represent North-American Plans that cover substantially all their employees and provide benefits that supplement the retirement benefits for the employees of Gerdau Ameristeel Corporation and its subsidiaries and Gerdau MacSteel. The assets of the Plans are comprised of investments, mainly in marketable securities and these plans are wholly funded.

The assumptions adopted for pension plans can have a significant effect on the amounts disclosed for these plans. Due to the migration process and the closing of Brazilian pension plans, the Company is not calculating the possible effects of changes in discount rates and expected return rate on assets for these plans. The possible effects of changes to the American Plans on the Consolidated Statement of Income are presented below:

	1% Increase	1% Decrease
Discount rate	(3,114)	3,999
Expected return on plan assets	(13,196)	13,189

The accumulated amount recognized in Comprehensive Income for employee benefits is R\$ (994,105) (R\$ (759,458) on December 31, 2010)

**Brazilian plans**

The current expense of the defined benefit pension plans is as follow:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cost of current service		35,570	47,807
Cost of interest	46,891	133,099	122,140
Expected return on plan assets	(105,921)	(251,919)	(219,615)
Curtailement		(252,473)	
Settlement		301,065	
Expected contribution from employees			(11,359)
Net pension benefit	(59,030)	(34,658)	(61,027)

The reconciliation for assets and liabilities of the plans is as follow:

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010
Total obligations	(313,788)	(100,360)
Fair value of the assets of the plan	690,002	867,737
Balance of assets	376,214	767,377
Restriction on actuarial assets due to restrictions of recovery	(376,214)	(767,377)
Net asset		
Assets recognized		

Changes in plan assets and actuarial liabilities were as follow:

	2011	2010	2009
<b>Variation of the plan obligations</b>			
Obligation at the beginning of the year	100,360	1,267,644	1,153,712
Cost of service		35,570	47,807
Cost of interest	46,891	133,099	122,140
Actuarial (gain) loss	259,379	(67,570)	(12,725)
Payments of the benefits	(20,302)	(44,956)	(42,775)
Curtailement		(252,473)	
Settlement	(72,540)	(970,954)	
Others			(515)
Obligation at the end of the year	313,788	100,360	1,267,644

	2011	2010	2009
<b>Variation of the plan assets</b>			
Fair value of the plan assets at the beginning of the year	867,737	2,308,824	1,837,694
Return of the plan assets	105,921	251,919	333,268
Contributions from sponsors			15,460
Contributions from participants		207	3,360
Actuarial gain (loss) on the assets	(102,867)	(23,691)	162,458
Payments of benefits	(20,302)	(44,956)	(42,775)
Settlement	(49,148)	(1,187,651)	
Transfer to Defined contribution plan	(111,339)	(436,915)	
Others			(641)
Fair value of plan assets at the end of the year	690,002	867,737	2,308,824

The fair value of plan assets include Company shares in the amount of R\$ 405 (R\$ 28,884 on December 31, 2010) and the shares from Metalúrgica Gerdau S.A., the parent Company, in the amount of R\$ 12,647 (R\$ 64,888 on December 31, 2010).

Amounts recognized as actuarial gains and losses in the Statement of Comprehensive Income are as follows:



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010	2009
Actuarial (gains) losses in plan assets	102,867	23,691	(162,458)
Actuarial (gains) losses in obligations	259,379	(67,570)	(12,725)
Actuarial losses (gains) in contributions from employees		(207)	7,999
Restriction effect recognized in Comprehensive Income	(391,163)	198,412	
Actuarial (gains) losses recognized in Comprehensive Income	(28,917)	154,326	(167,184)

The historical actuarial gains and losses of the plan are as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(313,788)	(100,360)	(1,267,644)	(1,153,712)	(1,014,603)
Fair value of the plan assets	690,002	867,737	2,308,824	1,837,694	1,701,896
Superavit	376,214	767,377	1,041,180	683,982	687,293
Experience adjustments on plan liabilities (Gain)	259,379	(67,570)	(12,725)	25,106	14,836
Experience adjustments on plan assets (Gain)	102,867	23,691	(162,458)	65,071	(112,188)

Actuarial gains and losses are recognized in the period in which they occur and are recorded directly in comprehensive income.

The allocation for plan assets is shown below:

	2011	
	Gerdau Plan	Açominas Plan
Fixed income	100.0%	97.7%
Structure finance		0.6%
Loans		1.7%
Total	100%	100%

	2010	
	Gerdau Plan	Açominas Plan
Fixed income	72.4%	83.7%
Variable income	27.4%	13.8%
Structure finance	0.2%	0.2%
Real estate		0.3%
Loans		2.0%
Total	100%	100%

The investment strategy for the Gerdau Plan and Açominas Plan is based on a long-term macroeconomic scenario. This scenario assumes a reduction in Brazil's sovereign risk, moderate economic growth, stable levels of inflation and exchange rates, and moderate interest rates.

**North American Plans**

The current expense of the defined benefit pension plans is as follows:

F-70

---



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010	2009
Cost of current service	52,022	41,879	54,839
Cost of interests	98,565	83,278	83,360
Expected return on plan assets	(112,130)	(81,369)	(66,026)
Cost of past service	1,916	13,455	1,350
Curtailments effects	214		(45,581)
Net cost pension benefit	40,587	57,243	27,942

The reconciliation of plan assets and liabilities is as follows:

	2011	2010
Present value of defined benefit obligation	(2,093,983)	(1,627,430)
Fair value of the plan assets	1,494,350	1,253,595
Adjustment IFRIC 14	(2,144)	(9,022)
Total liabilities, net	(601,777)	(382,857)
Recognized asset		
Recognized liabilities	(601,777)	(382,857)

Changes in plan assets and actuarial liabilities were as follows:

	2011	2010	2009
<b>Variation of the benefits obligation</b>			
Obligation at the beginning of the year	1,627,430	1,472,773	1,625,859
Cost of service	52,022	41,879	54,839
Cost of interests	98,565	83,278	83,360
Payments of the benefits	(82,828)	(55,155)	(58,955)
Reduction of losses	214		(45,580)
Actuarial losses (gains) on the obligation	127,161	123,378	195,775
Exchange variations	271,419	(38,723)	(382,525)
Obligation at the end of the year	2,093,983	1,627,430	1,472,773

	2011	2010	2009
<b>Variation of the plan assets</b>			
Fair value of plan assets at the beginning of the year	1,253,595	1,043,737	1,023,045
Return of the plan assets	112,130	81,369	66,026
Contributions from sponsors	127,526	137,272	122,270
Payments of benefits	(83,651)	(54,944)	(47,558)
Actuarial gains (losses) on the assets	(106,073)	47,237	74,924
Exchange variations	190,823	(1,076)	(194,970)

Edgar Filing: GERDAU S.A. - Form 20-F

Fair value of plan assets at the end of the year	1,494,350	1,253,595	1,043,737
--	-----------	-----------	-----------

The past performance for actuarial gains and losses of the plan is as follows:

F-71

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(2,093,983)	(1,627,430)	(1,472,773)	(1,625,859)	(1,174,212)
Fair value of the plan assets	1,494,350	1,253,595	1,043,737	1,023,045	942,416
IFRIC 14 Adjustment	(2,144)	(9,022)			
Deficit	(601,777)	(382,857)	(429,036)	(602,814)	(231,796)
Experience adjustments on plan liabilities (Gain)	127,161	123,378	195,775	(40,482)	(64,799)
Experience adjustments on plan assets (Gain)	106,073	(47,237)	(74,924)	392,123	(46,971)

Amounts recognized as actuarial gains and losses in comprehensive income are as follows:

	2011	2010	2009
Actuarial (gains) losses in plan assets	106,073	(47,237)	(74,924)
Actuarial losses (gains) in obligations	127,161	123,378	195,775
Actuarial losses recognized in Comprehensive Income	233,234	76,141	120,851

Gerdau Ameristeel has an Investment Committee that defines the investment policy for the defined benefit plans. The primary investment objective is to ensure the security of benefits that were accrued under the plans, providing an adequately funded asset pool which is separated and independent of Gerdau Ameristeel Corporation. To accomplish this objective, the fund must invest in a manner that adheres to safeguards and diversification to which a prudent investor of pension funds would normally adhere. Gerdau Ameristeel retains specialized consultants that advice and support Investment Committee decisions and recommendations.

The asset mix policy considers the principles of diversification and long-term investment goals, as well as liquidity requirements. To do this, the target allocation ranges between 60% in shares and 40% in debt securities. The policy also expresses that it will reallocate the assets of the plan when a class of assets reaches the minimum or maximum allocation and that this rebalancing will be done within a reasonable time.

The allocation of the assets of the plan as of December 31, 2011 is demonstrated below:

	2011	2010
Equity securities	52.1%	62.3%
Debt securities	40.5%	35.6%
Real estate	0.1%	0.2%
Others	7.3%	1.9%
	100%	100%

Edgar Filing: GERDAU S.A. - Form 20-F

The table below shows a summary of the assumptions used for both the Company and consolidated to calculate and record the defined benefit plans in 2011 and 2010, respectively:

	2011		
	Gerdau Plan	Açominas Plan	North America Plan
Average discount rate	10.25%	10.25%	4.75%
Rate of increase in compensation	Not applicable	Not applicable	3.25% - 4.25%
Expected rate of return on assets	12.14%	12.10%	7.00% - 8.00%
Mortality table	AT-2000 Basic, per sex	AT-2000 Basic, per sex	RP-2000CH
Mortality table of disabled	AT-2000 Basic, per sex	AT-2000 Basic, per sex	Rates by age
Rate of rotation	Based on service and salary level	None	Based on age and/or the service

F-72

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2010		North America Plan
	Gerdau Plan	Açominas Plan	
Average discount rate	10.25%	10.25%	5.25%
Rate of increase in compensation	8.68%	7.11%	3.25% - 4.25%
Expected rate of return on assets	12.08%	11.27%	7.00% - 8.50%
Mortality table	AT-2000 Basic, per sex	AT-2000 Basic, per sex	RP-2000CH
Mortality table of disabled	AT-2000 Basic, per sex	AT-2000 Basic, per sex	Rates by age
Rate of rotation	Based on service and salary level	None	Based on age and/or the service

The expected rate of return on assets is used to determine the increase on the assets of the benefit plans related to the investments expected for the next year. The real rate of return on investments is selected considering the allocation of the assets classes that backing the benefits and the expectations about the return of each investment category. This rate is reviewed annually and eventual changes are incorporated on the medium and long-term economic scenarios.

**b) Post-employment defined contribution pension plan**

The Company and its subsidiaries in Brazil maintain a defined contribution plan to which contributions are made by the sponsor in a proportion of the contribution made by its exercising employees. The total cost to these plans was R\$ 41.883 in 2011 (R\$ 12,048 in 2010). This employee benefit plan has an actuarial surplus made by the portion that is not part of the account balance of the participants that opted out of the employment contract with the employer before eligibility of a benefit by the plan and the portion of the surplus from the settlement of the defined benefit plan as described in the letter a, which may be used to compensate future contributions from the sponsors.

The subsidiary Gerdau Ameristeel Corporation has a defined contribution plan, where the total cost for these plans was R\$ 33,837 in 2011 (R\$ 31,155 in 2010).

**c) Post-employment health care benefit plan**

The North American plan includes, in addition to pension benefits, specific health care benefits for employees who retire after a certain age and with a certain number of years of service. The American subsidiary has the right to change or eliminate these benefits, and the contributions are actuarially calculated. This plan is unfunded.

The net periodic cost of post-employment health care benefits is as follows:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Current service cost	3,574	2,906	4,100
Interests Costs	15,542	13,917	13,576
Curtailments effects			(14,312)
Net cost pension benefit	19,116	16,823	3,364

The status of the funds post-employment health benefits is as follows:

	<b>2011</b>	<b>2010</b>
Present value of obligations	(343,713)	(272,302)
Total net liabilities	(343,713)	(272,302)

F-73

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Changes in plan assets and actuarial liabilities were as follows:

	2011	2010	2009
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of the year	272,302	243,156	281,290
Cost of service	3,574	2,906	4,100
Cost of interest	15,542	13,917	13,576
Contributions from participants	2,767	2,601	2,648
Payment of benefits	(16,627)	(13,210)	(11,474)
Curtailments and termination benefits			(14,311)
Medical subsidy	1,953	332	
Actuarial losses in obligations	30,330	29,170	30,089
Exchange variations	33,872	(6,570)	(62,762)
Benefit obligation at the end of the year	343,713	272,302	243,156

	2011	2010	2009
<b>Change in plan assets</b>			
Contributions from sponsors	11,384	13,210	11,474
Contributions from participants	2,767		
Medical subsidy	1,953		
Payments of benefits	(16,104)	(13,210)	(11,474)
Fair value of plan assets at end of the year			

The past performance of actuarial gains and losses of the plan is as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(343,713)	(272,302)	(243,156)	(281,290)	(218,046)
Deficit	(343,713)	(272,302)	(243,156)	(281,290)	(218,046)
Experience adjustments on plan liabilities	30,330	29,170	30,089	(16,796)	2,007

The amounts recognized as actuarial gains and losses in Comprehensive Income are as follows:

	2011	2010	2009
Losses on actuarial obligation	30,330	29,170	30,089
Actuarial losses recognized in Equity	30,330	29,170	30,089

Edgar Filing: GERDAU S.A. - Form 20-F

The accounting assumptions adopted for post-employment health benefits are as follows:

	2011	2010
Average discount rate	4.75%	5.25%
Health treatment - rate assumed next year	8.00%	8.00%
Health treatment - Assumed rate of decline in the cost to achieve in the years of 2016 to 2019 (as of 2011) and 2016 to 2017 (as of 2010)	5.00% - 5.50%	5.00% - 5.50%

F-74

---



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

The assumptions adopted for post-employment health benefits have a significant effect on the amounts disclosed for post-employment health benefits plans. The change of one point percentage on rates of health benefits post-employment would have the following effects:

	1% Increase	1% Decrease
Effect over total service costs and interest costs	2,626	(2,142)
Effect over benefit plan obligations	47,244	(38,934)

**d) Other retirement and termination benefits**

The Company estimates that the amount payable to executives upon their retirement or termination is R\$ 272,782 in December 31, 2011 (R\$ 179,312 as of December 31, 2010).

These amounts refer principally to the Social Plan sponsored by Corporación Sidenor and its subsidiaries approved by the representatives of the employees. The Plan allows a productivity increase by reducing jobs, which is made possible by an investment plan in technological improvements.

The objective of the Plan is to promote the rejuvenation of the work force by contracting younger employees as older employees retire.

The benefits of this plan provide a compensation supplement up to retirement date, cost of living allowance, and other benefits as a result of termination and retirement of the employees.

**NOTE 20 ENVIRONMENTAL LIABILITIES**

The steel industry uses and generates substances that may damage the environment. The Company's management performs frequent surveys with the purpose of identifying potentially impacted areas and records based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites, totaling R\$ 68,419 as of December 31, 2011 (R\$ 72,093 as of December 31, 2010) (R\$ 31,798 and R\$ 29,191 in Current Liabilities as of December 31, 2011 and December 31, 2010, respectively, and R\$ 36,621 and R\$ 42,902 in Non-Current Liabilities as of December 31, 2011 and December 31, 2010, respectively), which R\$ 20,121 (R\$ 20,974 as of December 31, 2010) is related for Brazilian subsidiaries and R\$ 48,298 (R\$ 51,119 as of December 31, 2010) related to foreign subsidiaries. The Company used estimates and

assumptions to determine the amounts involved, which can vary in the future, due to the final investigations and the determination of the actual environmental impact.

The Company and its subsidiaries believe they are compliant with all the applicable environmental regulations in the countries where they operate.

**NOTE 21 EQUITY**

**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 nominal value. In the case of capital increase by new shares subscription, 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.

The reconciliation of common and preferred outstanding shares, at the beginning and at the end of periods is presented below:

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011		2010		2009	
	Common shares	Preferred shares	Common shares	Preferred shares	Common shares	Preferred shares
Balance at beginning of the year	503,903,035	1,000,912,831	494,888,956	925,709,735	494,888,956	925,519,331
Treasure shares acquiring		(4,100,000)		(1,700,000)		(500,000)
Issuance shares	68,026,910	134,830,100	9,014,079	76,407,413		
Exercise of stock options		1,325,480		495,683		690,404
Balance at the end of the year	571,929,945	1,132,968,411	503,903,035	1,000,912,831	494,888,956	925,709,735

Primary Public Offering of Company Shares: On March 21, 2011, Gerdau S.A. announced a primary public offering of shares. On April 12, 2011, the Board of Directors of Gerdau SA approved the issuance of 68,026,910 common shares and 134,830,100 preferred shares, totaling a capital increase of R\$ 3,597,829 (net of capital increase costs of R\$ 58,870), undertaken in the context of the primary public offering of Company shares. As a result of the issuance of shares, the capital of the Company increased from R\$ 15,651,352 to R\$ 19,249,181.

On December 31, 2011, 573,627,483 common shares and 1,146,031,245 preferred shares are subscribed and paid up, in a total capital of R\$ 19,249,181 (net of capital increase expenses). On December 31, 2010, 505,600,573 common shares and 1,011,201,145 preferred shares are subscribed and paid up, in a total capital of R\$ 15,651,352. The shares are distributed as follows:

Shareholders	Shareholders 2011					
	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	23,811,051	4.2	191,637,962	16.7	215,449,013	12.4
Foreign institutional investors	24,316,585	4.2	501,052,151	43.7	525,368,736	30.6
Other shareholders	74,089,655	12.9	187,436,814	16.4	261,526,469	15.2
Treasury stock	1,697,538	0.3	13,062,834	1.1	14,760,372	0.9
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

Shareholders	Shareholders 2010					
	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.	387,232,264	76.6	321,839,377	31.8	709,071,641	46.7
Brazilian institutional investors	26,904,285	5.3	131,324,132	13.0	158,228,417	10.4
Foreign institutional investors	16,323,426	3.2	334,866,881	33.1	351,190,307	23.2
Other shareholders	73,443,060	14.6	212,882,441	21.1	286,325,501	18.9
Treasury stock	1,697,538	0.3	10,288,314	1.0	11,985,852	0.8
	505,600,573	100.0	1,011,201,145	100.0	1,516,801,718	100.0

Edgar Filing: GERDAU S.A. - Form 20-F

Shareholders	2009					
	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.	378,218,185	76.2	271,353,662	29.0	649,571,847	45.4
Brazilian institutional investors	20,810,696	4.2	136,854,752	14.6	157,665,448	11.0
Foreign institutional investors	24,749,272	5.0	328,887,708	35.2	353,636,980	24.7
Other shareholders	71,110,803	14.3	188,613,613	20.2	259,724,416	18.1
Treasury stock	1,697,538	0.3	9,083,997	1.0	10,781,535	0.8
	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 shares** - changes in treasury shares are as follows:

F-76

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011		2011	
	Common shares	R\$	Preferred shares	R\$
<b>Opening balance</b>	1,697,538	557	10,288,314	160,848
Repurchases			4,100,000	84,927
Exercise of stock options			(1,325,480)	(9,133)
<b>Closing balance</b>	1,697,538	557	13,062,834	236,642

	2010		2010	
	Common shares	R\$	Preferred shares	R\$
<b>Opening balance</b>	1,697,538	557	9,083,997	124,128
Repurchases			1,700,000	44,620
Exercise of stock options			(495,683)	(7,900)
<b>Closing balance</b>	1,697,538	557	10,288,314	160,848

	2009		2009	
	Common shares	R\$	Preferred shares	R\$
<b>Opening balance</b>	1,697,538	557	9,274,401	122,263
Repurchases			500,000	11,071
Exercise of stock options			(690,404)	(9,206)
<b>Closing balance</b>	1,697,538	557	9,083,997	124,128

As of December 31, 2011, the Company had 13,062,834 preferred shares in treasury (10,288,314 and 9,083,997 during the years ended December 31, 2010 and 2009, respectively), totaling R\$ 236,642 (R\$ 160,848 and R\$ 124,128 during the years ended December 31, 2010 and 2009, respectively). These shares will be held in treasury for subsequent cancelling or will service the long-term incentive plan of the Company. During 2011, 1,325,480 shares were delivered for the exercise of stock options (495,683 and R\$ 690,404 during the years ended December 31, 2010 and 2009, respectively) with losses of R\$ 9,133 (R\$ 7,900 and R\$ 9,206 during the years ended December 31, 2010 and 2009, respectively), which were recorded in the Retained Earnings. The average acquisition cost of these shares was R\$ 18.11 (R\$ 15.65 and R\$ 13.66 during the years ended December 31, 2010 and 2009, respectively).

**c) Legal reserves** - under Brazilian Corporate Law, the Company must transfer 5% of the annual net income determined in the corporate books in accordance with Brazilian accounting practices to the legal reserve until this reserve equals 20% of the paid-in capital. The legal reserve can be utilized to increase capital or to absorb losses, but cannot be used for dividend purposes.

**d) Stock options plan** consists of the expense recorded due to the stock option plan and by the exercised stock options.

**e) Retained earnings** - consist of earnings not distributed to the shareholders and include the reserves required by the Company bylaws. The Board of Directors may propose to the shareholders the transfer of at least 5% of the net income for each year determined in its corporate books

## Edgar Filing: GERDAU S.A. - Form 20-F

in accordance with Brazilian accounting practices to a reserve (Reserve for Investments and Working Capital). The reserve is recorded only after the minimum dividend requirements are met and its balance cannot exceed the amount of paid-in capital. The reserve can be used to absorb losses, if necessary, for capitalization, payment of dividends or repurchase of shares.

**f) Other reserves** - Include: unrealized actuarial gains and losses on postretirement benefits, cumulative translation differences, unrealized gains and losses on net investment hedge, unrealized gains and losses on cash flow hedges and unrealized gains and losses on available for sale securities.

GERDAU S.A.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****for the years ended December 31, 2011, 2010 and 2009**

(in thousands of Brazilian reais R\$, unless otherwise stated)

**g) Dividends and interest on capital** - the shareholders have a right to receive a minimum annual mandatory dividend equal to 30% of adjusted net income arrived at in its corporate records prepared in accordance with the accounting practices adopted in Brazil. The Company calculated interest on shareholders' capital for the year in accordance with the terms established by Law 9249/95. The corresponding amount was recorded as a financial expense for tax purposes. For presentation purposes, this amount was recorded as dividends and did not affect net income. The related tax benefit from the reduction in income tax and social contribution on net income was R\$ 52,198 for the year.

The interest on capital and dividends totaling R\$ 596,733 credited during the year, as follows:

	2011	2010	2009
Net income	2,005,727	2,142,488	1,121,966
Constitution of legal reserve	(100,286)	(107,124)	(56,143)
Constitution of the tax incentives reserve	(42,139)	(113,914)	(93,428)
Adjusted net income	1,863,302	1,921,450	972,395

**Earnings in year**

Period	Nature	R\$ /share	Outstanding shares (thousands)	Credit	Payment	2,011	2,010	2,009
1st quarter	Interest						170,297	
1st quarter	Dividends	0.06	1,705,741	5/19/2011	5/27/2011	102,234		
2nd quarter	Dividends						198,689	
2nd quarter	Interest	0.09	1,705,811	8/15/2011	8/25/2011	153,523		
3rd quarter	Interest						170,417	106,539
3rd quarter	Dividends	0.12	1,704,867	11/21/2011	11/30/2011	204,584		
4th quarter	Dividends	0.08	1,704,898	2/27/2012	3/8/2012	136,392	90,289	255,708
Interest on capital and dividends						596,733	629,692	362,247
Credit per share (R\$)						0.35	0.44	0.25

The remaining income for the year was transferred to a statutory reserve for investments and working capital in accordance with Company by-laws.

**NOTE 22 EARNINGS PER SHARE (EPS)**

Edgar Filing: GERDAU S.A. - Form 20-F

In compliance with IAS 33, Earnings per Share, the following tables reconcile net income to the amounts used to calculate the basic and diluted earnings per share.

**Basic**

	Common	2011 Preferred	Total
	(in thousands, except share and per share data)		
<b>Basic numerator</b>			
Allocated net income available to common and preferred shareholders	671,943	1,333,784	2,005,727
<b>Basic denominator</b>			
Weighted-average outstanding shares, after deducting the average treasury shares	550,305,197	1,092,338,207	
Earnings per share (in R\$) Basic	1.22	1.22	

F-78



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Common	2010 Preferred	Total
	(in thousands, except share and per share data)		
<b>Basic numerator</b>			
Allocated net income available to common and preferred shareholders	743,897	1,398,591	2,142,488
<b>Basic denominator</b>			
Weighted-average outstanding shares, after deducting the average treasury shares	494,888,956	930,434,530	
Earnings per share (in R\$) Basic	1.50	1.50	

	Common	2009 Preferred	Total
	(in thousands, except share and per share data)		
<b>Basic numerator</b>			
Allocated net income available to common and preferred shareholders	390,864	731,102	1,121,966
<b>Basic denominator</b>			
Weighted-average outstanding shares, after deducting the average treasury shares	494,888,956	925,676,955	
Earnings per share (in R\$) Basic	0,79	0,79	

**Diluted**

	2011	2010	2009
<b>Diluted numerator</b>			
<b>Allocated net income available to Common and Preferred shareholders</b>			
Net income allocated to preferred shareholders	1,333,784	1,398,591	731,102
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.	769	1,141	786
	1,334,553	1,399,732	731,888
Net income allocated to common shareholders	671,943	743,897	390,864
Less:			
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.	(769)	(1,141)	(786)
	671,174	742,756	390,078

**Diluted denominator****Weighted - average number of shares outstanding**

Edgar Filing: GERDAU S.A. - Form 20-F

Common Shares	550,305,197	494,888,956	494,888,956
Preferred Shares			
Weighted-average number of preferred shares outstanding	1,092,338,207	930,434,530	925,676,955
Potential increase in number of preferred shares outstanding in respect of stock option plan	1,881,752	2,188,845	2,864,129
Total	1,094,219,959	932,623,375	928,541,084
Earnings per share Diluted (Common and Preferred Shares)	1.22	1.50	0.79

F-79

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

The Company does not have instruments that were not included in the calculation of diluted EPS because they were antidilutive.

## NOTE 23 NET SALES REVENUE

The net sales revenues for the year are composed of:

	2011	2010	2009
Gross sales	39,819,986	35,666,379	30,124,727
Taxes on sales	(3,504,137)	(3,630,036)	(3,031,102)
Discounts	(909,069)	(643,134)	(553,575)
Net sales	35,406,780	31,393,209	26,540,050

## NOTE 24 - 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 persons 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 shall be exercised in a maximum of five years after the grace period. The Stock Options Plan establishes that 75% of the options granted to management are exercisable only if they met the performance goals established by the Executive Committee.

## a) Summary of changes in the plan:

Year of grant	Exercise price - R\$	Vesting period	Average market price - 2011(*)	Balance on December 31, 2010	Quantity of shares			Balance on December 31, 2011
					Granted	Cancelled	Exercised	

Edgar Filing: GERDAU S.A. - Form 20-F

2004	6.78	5 anos	16.92	988,582		(110,218)	878,364
2005	10.58	3 anos	16.92	388,468		(13,440)	375,028
2005	10.58	5 anos	16.92	932,681		(90,583)	842,098
2006	12.86	5 anos	16.92	1,624,621		(103,495)	1,521,126
2007	17.50	5 anos	16.92	1,280,299		(25,028)	1,247,129
2008	26.19	5 anos	16.92	1,083,020		(30,208)	1,052,812
2009	14.91	5 anos	16.92	2,169,970		(58,728)	2,101,178
2010	29.12	5 anos	16.92	1,607,567		(32,467)	1,572,819
2011	22.61	5 anos	16.92		1,444,131	(39,984)	1,397,410
				10,075,208	1,444,131	(186,415)	10,987,964

---

(\*) Accumulated average price of the share in the period

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Year of grant	Exercise price - R\$	Vesting period	Average market price - 2010(*)	Balance on December 31, 2009	Quantity of shares			Balance on December 31, 2010
					Granted	Cancelled	Exercised	
2004	6.78	5 anos	25.02	1,106,729		(4,702)	(113,445)	988,582
2005	10.58	3 anos	25.02	426,401		(1,963)	(35,970)	388,468
2005	10.58	5 anos	25.02	1,107,268		(3,926)	(170,661)	932,681
2006	12.86	5 anos	25.02	1,682,616		(25,562)	(32,433)	1,624,621
2007	17.50	5 anos	25.02	1,336,760		(22,836)	(33,625)	1,280,299
2008	26.19	5 anos	25.02	1,128,810		(42,553)	(3,237)	1,083,020
2009	14.91	5 anos	25.02	2,247,050		(46,531)	(30,549)	2,169,970
2010	29.12	5 anos	25.02		1,631,157	(23,590)		1,607,567
				9,035,634	1,631,157	(171,663)	(419,920)	10,075,208

(\*) Accumulated average price of the share in the period

Year of grant	Exercise price - R\$	Vesting period	Average market price - 2009(*)	Balance on January 01, 2009	Quantity of shares			Balance on December 31, 2009
					Granted	Cancelled	Exercised	
2003	2.65	5 years	20.64	62,106			(62,106)	
2004	6.78	5 years	20.64	1,349,859			(243,130)	1,106,729
2005	10.58	3 years	20.64	470,263		(5,555)	(38,307)	426,401
2005	10.58	5 years	20.64	1,155,565			(48,297)	1,107,268
2006	12.86	5 years	20.64	1,839,817		(7,097)	(150,104)	1,682,616
2007	17.50	5 years	20.64	1,455,728		(12,079)	(106,889)	1,336,760
2008	26.19	5 years	20.64	1,180,300		(13,477)	(38,013)	1,128,810
2009	14.91	5 years	20.64		2,286,172	(35,529)	(3,593)	2,247,050
				7,513,638	2,286,172	(73,737)	(690,439)	9,035,634

(\*) Accumulated average price of the share in the period

As of December 31, 2011, the Company has a total of 13.062.834 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 or death.

## b) Historical grant of long term incentives:

Edgar Filing: GERDAU S.A. - Form 20-F

	Grant								
	2004	2005	2006	2007	2008	2009	2010	2011	Average
Total options granted	1,599,568	2,342,448	1,979,674	1,556,502	1,202,974	2,286,172	1,631,157	1,444,131	
Exercise price- R\$	6.78	10.58	12.86	17.50	26.19	14.91	29.12	22.61	16.67
Fair value of options on the granting date - R\$ per option (*)	5.77	5.20	8.66	15.30	21.22	6.98	13.07	11.32	10.08
Average exercise period on the grant date (years)	5	5	5	5	5	5	5	5	

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

The total of options exercisable on December 31, 2011 is 3,616,616 (2,309,731 and 1,533,130 on December 31, 2010 and 2009, respectively).

The percentage of interest dilution, in which, eventually, the shareholders can be diluted in case of all options being exercised, is approximately 0.7%.

The long-term incentive plans costs recognized in the net income was R\$ 15,318 on December 31, 2011 (R\$ 13,730 and R\$ 10,001 on December 31, 2010 and 2009, respectively).

**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 2011	Grant 2010	Grant 2009	Grant 2008	Grant 2007	Grant 2006	Grant 2005	Grant 2004
Dividend yield	2.06%	2.08%	4.13%	2.81%	4.32%	9.99%	7.90%	7.03%
Stock price volatility	57.15%	57.95%	57.81%	37.77%	38.72%	41.51%	38.72%	43.31%
Risk-free rate of return	11.85%	12.73%	12.32%	14.04%	12.40%	12.80%	8.38%	8.38%
Expected period until maturity	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

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.

**II) Gerdau Ameristeel Corporation ( Gerdau Ameristeel )**

In February 2010, the Board of Directors of the Company approved the adoption of the Equity Incentive Plan (the EIP ). Awards under the EIP may take the form of stock options, SARs, deferred share units ( DSUs ), restricted share units ( RSUs ), performance share units ( PSUs ), restricted stock, and/or other share-based awards. Except for stock options, which must be settled in preferred shares, awards may be settled in cash or preferred shares as determined by the Company at the time of grant.

For the portion of any award which is payable in options or SARs, the exercise price of the options or SARs will be no less than the fair market value of a preferred share on the date of the award. The vesting period for all awards (including RSUs, DSUs and PSUs) is determined by the Company at the time of grant. Options and SARs have a maximum term of 10 years.

On March 12, 2010, an award of approximately US\$ 11.8 million (R\$ 20.8 million) was granted to participants under the EIP for 2010 performance. Gerdau Ameristeel issued 1,728,689 equity-settled SARs, 277,621 RSUs, and 396,602 PSUs under this plan. This award is being accrued over the vesting periods, which consider a period between 4 and 5 years.

On March 16, 2011, an award of approximately US\$ 11.2 million (R\$ 18.2 million) was granted to participants under the EIP for 2011 performance. The Company issued 1,280,082 equity-settled SARs, 107,286 RSUs, and 214,572 PSUs under this plan. This award is being accrued over the vesting period of 5 years.

In connection with the adoption of the EIP, the Company terminated the existing long-term incentive plan ( LTIP ), and no further awards will be granted under the LTIP. All outstanding awards under the LTIP will remain outstanding until either exercised, forfeited or they expire. On December 31, 2011, there were 2,353,529 cash-settled SARs, 1,140,032 stock options, and 198,769 phantom shares outstanding under the LTIP. This award is being accrued over the vesting period of 4 years.

On August 30, 2010, Gerdau S.A. indirectly acquired all of the outstanding common shares of Gerdau Ameristeel not already owned, directly or indirectly. In connection with the acquisition, all outstanding Options, SARs, PSUs, RSUs, and Phantom Shares were converted to awards in respect of American Depository Receipts of Gerdau S.A. ( ADR ), which represents the right to receive preferred shares of Gerdau S.A. The

## Edgar Filing: GERDAU S.A. - Form 20-F

conversion was based on the relative value of a common share of Gerdau Ameristeel to an ADR as at the closing of the arrangement in order to maintain an equivalent intrinsic value of the award at the time of the exchange. A conversion factor was applied of 0.7993 (the conversion factor), equal to the final closing price of a common share of the Gerdau Ameristeel on the New York Stock Exchange ( NYSE ) divided by the closing price of an ADR on the NYSE on August 27, 2010, the last trading day for the Gerdau Ameristeel's common shares.

All amounts (e.g. grants, exercises, forfeitures, weighted average fair value, fair value, etc.) disclosed in this footnote regarding share-based activity prior to August 30, 2010 (the modification date) are on a pre-conversion basis in respect of the Gerdau Ameristeel's common shares. All amounts disclosed related to activity after the modification date are on a post-conversion basis in respect of ADRs.

Modification expenses for equity-settled awards are recognized if the effect of the modification increases the total fair value of the equity-settled awards or is otherwise beneficial to the employee. The incremental fair value granted is the difference between the fair value of the modified equity award and that of the original award, both estimated at the date of modification. If the modification occurs during the vesting period, the incremental fair value granted is recognized for services received over the remaining vesting period while the original grant date fair value of the original equity award continues to be recognized in accordance with the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately. The modification date fair value of all of the Company's



**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

equity settled awards was less than the fair value of the original awards at the modification date. As such, no incremental expense was recognized by Gerdau Ameristeel. The modification did not impact the Company's classification of equity-settled and cash-settled awards.

During the years ended December 31, 2011 and 2010, the compensation costs recognized for all equity-settled awards were US\$ 0.8 million (R\$ 1.3 million) and US\$ 2.7 million (R\$ 4.8 million), respectively. The Company recorded compensation expense of US\$ (8.6) million (R\$ (14.4) million) and US\$ 9.3 million (R\$ 16.4 million), respectively, related to cash-settled awards for the years ended December 31, 2011 and 2010.

On December 31, 2011 and 2010, the outstanding liability for share-based payment transactions included in other non-current liabilities in the Company's consolidated balance sheets was US\$ 7.7 million (R\$ 14.4 million) and US\$ 19.9 million (R\$ 33.2 million), respectively. The total intrinsic value of share-based liabilities for which the participant's right to exercise had vested was US\$ 3.1 million (R\$ 5.8 million) and US\$ 5.1 million (R\$ 8.5 million) as of December 31, 2011 and 2010, respectively.

**Phantom Shares**

Phantom Shares provide the holder with the opportunity to receive a cash payment equal to the fair market value of the ADRs. Phantom Shares vest 25% each year over a four year period with the holders receiving payment for vested shares on each grant anniversary date. The holders of Phantom Shares have no voting rights, but accumulate additional shares based on notional dividends paid by Gerdau S.A. on its ADRs at each dividend payment date, which are reinvested as additional Phantom Shares. Compensation expense related to Phantom Shares is recognized over the vesting period based upon the number of shares that are expected to vest and remain outstanding at the end of the reporting period. On the date of grant, the fair value of a Phantom Share is equal to the fair value of the underlying reference shares. For Phantom Shares, the fair value is remeasured at each balance sheet reporting date.

During the year ended December 31, 2010, all Phantom Shares were converted into awards with respect to ADRs (based on the conversion value). This conversion did not have a significant impact on the Company's consolidated financial statements.

**Share Appreciation Rights (SARs)**

SARs provide the holder with the opportunity to receive either ADRs or a cash payment equal to the fair market value of the ADRs less the exercise price. The exercise price is set at the closing price of the underlying reference shares on the date of grant. SARs vest over a four to five year period and expire ten years after the grant date. Compensation expense is recognized based on the fair value of the awards that are expected

## Edgar Filing: GERDAU S.A. - Form 20-F

to vest and remain outstanding at the end of the reporting period. The Black-Scholes option pricing model is used to calculate an estimate of fair value. The Company has both equity-settled and cash-settled SARs. For SARs accounted for as equity-settled, the fair value is estimated only at the date of grant. For SARs accounted for as cash-settled, the fair value is remeasured at each balance sheet reporting date.

The grant date fair value of equity-settled SARs granted during the years ended December 31, 2011 and 2010 was US\$ 7.04 and US\$ 4.56 (R\$ 11.79 and R\$ 7.64) and the principal assumptions used in applying the Black-Scholes option pricing model were as follows:

	2011	2010
Dividend yield	2.56%	2.77%
Volatility in the price of the share	52.75%	60.99%
Free rate of return risk	11.85%	12.73%
Expected period to maturity	6.51 years	6.51 years

F-83

---

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires the use of subjective assumptions. Expected volatility was based on historical volatility of the Company's stock as well as other companies operating similar businesses. The expected life (in years) was determined using historical data to estimate SARs exercise patterns. The expected dividend yield was based on the historical annualized dividend rates. The risk free interest rate was based on the rate for US Treasury bonds commensurate with the expected term of the granted SARs.

**Restricted Share Units (RSUs)**

RSUs give the holder the right to receive a specified number of ADRs at the specified vesting date. As determined by the Company, the RSUs vest over a five-year period. The holders of RSUs have no voting rights, but accumulate additional units based on notional dividends paid by Gerdau S.A. on its ADRs at each dividend payment date, which are reinvested as additional RSUs. Compensation expense related to RSUs is recognized over the vesting period based upon the fair value of the RSUs on the grant date and the number of units expected to vest. On the date of grant, the fair value of an RSU is equal to the fair value of the underlying reference shares. The weighted-average grant date fair value of RSUs was US\$ 13 and US\$ 7.89 (R\$ 21.78 and R\$ 13.88) for RSUs granted during the years ended December 31, 2011 and 2010, respectively.

During the year ended December 31, 2010, all RSUs were converted to awards in respect of ADRs (based on the conversion factor) which resulted in a weighted-average modification date fair value of US\$ 9.87 (R\$ 16.45).

**Performance Share Units (PSUs)**

PSUs give the holder the right to receive one ADR for each unit that vests on the vesting date as determined by the Company. The holders of PSUs accumulate additional units based upon notional dividends paid by the Gerdau S.A. on its ADRs on each dividend payment date, which are reinvested as additional PSUs. The percentage of PSUs initially granted that is exercised depends on the Company's performance over the performance period against pre-established performance goals. Compensation expense related to each PSU grant was recognized over the performance period based on the fair value of the PSUs on the grant date and the number of units expected to vest. On the date of grant, the fair value of a PSU is equal to the fair value of the underlying reference shares. The weighted-average grant date fair value of PSUs was US\$ 13 and US\$ 7.89 (R\$ 21.78 and R\$ 13.88) for PSUs granted during the year ended December 31, 2011 and 2010, respectively.

During the year ended December 31, 2010, all PSUs were converted to awards in respect of ADRs (based on the conversion factor) which resulted in a weighted-average modification date fair value of US\$ 9.87 (R\$ 16.45).

**Stock Options**

The Company's stock options vest over a period of four years. The maximum term of an option is 10 years from the date of grant. On the date of grant, the exercise price of options is based on the fair value of the underlying reference shares.

There were no stock options granted under the EIP during the years ended December 31, 2011 and 2010.

During the year ended December 31, 2010, all of the Gerdau Ameristeel's stock options were converted to awards in respect of ADRs (based on the conversion factor). Gerdau Ameristeel revalued the original awards at the modification date and also fair valued the new awards at the modification date. Both values were derived using the Black-Scholes option-pricing model. The modification date fair value of the new awards was less than the fair value of the original awards at the modification date. As such, no incremental expense was recognized by Gerdau Ameristeel.

The summary of stock option activity prior to the modification date was as follows (\$000s):

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

Available at beginning of the year	2,828,498	5.79	9.65	1,307,036	9.13	15.90
Options Granted				2,002,116	3.48	6.06
Options Exercised (a)	(299,589)	3.09	5.15	(108,590)	1.98	3.45
Options Cancelled	(355,193)	5.11	8.51	(372,064)	6.18	10.76
Exchange for options of Gerdau S.A.	(2,173,716)	10.99	18.31			
Available at the end of the year				2,828,498	5.79	10.08
Shares exercised				665,320		

(a) The weighted-average exercise price was computed based on the date of exercise.

The summary of the stock options for the year ended on December 31, 2010 is as follows:

	Number of Shares	December 31, 2010(b)	
		Weighted Exercise Price	
		US\$	R\$
Activity prior to the Gerdau acquisition			
Outstanding at the beginning of the year	2,828,498	5.79	9.65
Exercised (b)	(299,589)	3.09	5.15
Forfeited	(355,193)	5.11	8.51
Outstanding at the date of Gerdau acquisition	2,173,716	10.99	18.31
Activity upon the Gerdau Acquisition (modification date):			
Outstanding at the date of Gerdau acquisition	2,173,716	10.99	18.31
Exchange of options of Gerdau S.A.	(2,173,716)	10.99	18.31
Replacement options (referenced to Gerdau S.A. ADRs)	1,737,318	7.86	13.10
Outstanding upon modification	1,737,318	7.86	13.10
Activity subsequent to the Gerdau Acquisition:			
Outstanding upon modification	1,737,318	7.86	13.10
Exercised (c)	(96,727)	4.11	6.85
Outstanding at the end of the period	1,640,591	8.08	13.46
Options exercisable at end of year	712,272	10.15	16.91

Edgar Filing: GERDAU S.A. - Form 20-F

(b) The number of shares and weighted average exercise price prior to the replacement of options which resulted from the Gerdau Acquisition were referenced to preferred shares of the Company. After the replacement of options, the number of shares and weighted average exercise price are referenced to Gerdau S.A. ADRs.

(c) The weighted-average exercise price was computed based on the date of exercise.

The summary of stock option activity after the modification date was as follows (\$000s):

F-85

---

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Number of shares	2011		Number of shares	2010	
		Average market price in the year			Average market price in the year	
		US\$	R\$		US\$	R\$
Available at beginning of the year	1,640,591	8.08	15.16	1,737,318	7.86	13.10
Options Exercised (d)	(191,887)	3.23	6.06	(96,727)	4.11	6.85
Available at the end of the year	1,448,704	8.72	16.36	1,640,591	8.08	13.46
Options exercisable at end of year	775,074	9.99	18.74	712,272	10.15	16.91

(d) The weighted-average exercise price was computed based on the date of exercise.

The following table summarizes information about options outstanding at December 31, 2011:

Exercise price range	Quantity available	Average period of grace (in years)	Average price of the year		Number exercisable at December 31, 2011
			US\$	R\$	
			US\$ 2.25 to US\$ 4.35 (R\$ 4.22 to R\$ 8.16)	885,316	
US\$ 11.89 to US\$ 13.64 (R\$ 22.30 to R\$ 25.59)	338,966	4.9	13.19	24.74	267,654
US\$ 19.84 (R\$ 37.22)	224,422	6.2	19.84	37.22	133,156
	1,448,704				775,074

### 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. Preferred Share at the date the award of phantom stock is made, based in the average price of Preferred Shares in the New York Stock Exchange. Phantom stock and SARs 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\$ 0.8 million (R\$ 1.5 million) was earned by participants in 2011 and was granted 41% in SARs, 39% in Performance Shares and 20% in Restrict Shares. In 2010, an award of approximately US\$ 1.1 million (R\$ 1.83 million) was earned by participants and was granted 44% in SARs, 37% in Performance Shares and 19% in Restrict Shares.

## Edgar Filing: GERDAU S.A. - Form 20-F

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:

### Performance shares:

	Grant 2011	Grant 2010
Dividend Yield	2.56%	2.77%
Volatility in the price of share	52.75%	60.99%
Free rate of return risk	11.85%	12.73%
Expected period to maturity	4.26 years	3.25 years

F-86

---



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

## SARS, Restricted Shares and Phantom Shares

	Grant 2011	Grant 2010
Dividend Yield	2.56%	2.77%
Volatility in the price of share	52.75%	60.99%
Free rate of return risk	11.85%	12.73%
Expected period to maturity	5.76 years	4.76 years

As of December 31, 2011 long-term incentive plan costs not yet recorded related to grants still in the grace period amounted to approximately US\$ 1.3 million (R\$ 2.4 million), and the average period for recognizing these costs was 4.5 years.

## NOTE 25 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 segments are as follows: Brazil Operation (includes operations in Brazil, except Special Steels), North America Operation (includes all operations in North America, except those of Mexico and Special Steels - Macsteel), Latin America Operation (includes all operations in Latin America, except Brazil) and Special Steel Operation (including special steel operations in Brazil, Europe, the United States and India).

	Business Segments					Consolidated
	Brazil Operation	North America Operation	Latin America Operation	Special Steels Operation	Eliminations and Adjustments	
Net sales	13,532,053	10,810,777	4,382,887	7,516,521	(835,458)	35,406,780
Cost of sales	(11,274,551)	(9,682,223)	(3,820,975)	(6,370,592)	850,109	(30,298,232)
Gross profit	2,257,502	1,128,554	561,912	1,145,929	14,651	5,108,548
Selling expenses	(329,371)	(95,521)	(90,950)	(87,857)	(48)	(603,747)
General and administrative expenses	(959,499)	(357,555)	(177,414)	(245,984)	(57,485)	(1,797,937)
Other operating income (expenses)	54,934	1,550	10,705	7,770	34,523	109,482
Equity in earnings of unconsolidated companies		76,008	357	(35,141)	21,438	62,662

Edgar Filing: GERDAU S.A. - Form 20-F

Operational (Loss) income before financial income						
(expenses) and taxes	1,023,566	753,036	304,610	784,717	13,079	2,879,008
Financial income	251,739	27,360	23,559	138,753	14,391	455,802
Financial expenses	(322,921)	(139,746)	(99,703)	(225,785)	(182,302)	(970,457)
Exchange variations, net	(18,645)	(15,872)	17,693	10,263	58,318	51,757
Gain and losses on derivatives, net	(1,339)	(68,696)	877		3,720	(65,438)
Income before taxes	932,400	556,082	247,036	707,948	(92,794)	2,350,672
Income and social contribution taxes	56,989	(85,604)	(86,087)	(211,681)	73,287	(253,096)
Net income	989,389	470,478	160,949	496,267	(19,507)	2,097,576
Supplemental information:						
Net sales between segments	842,261	129,305	135,894	202,619	5,390	1,315,469
Depreciation/amortization	841,257	423,500	132,787	367,924	6,413	1,771,881
Investments in associates and jointly-controlled entities		266,519	837,897	23,032	227,843	1,355,291
Total assets	15,216,676	14,438,588	6,882,443	10,661,967	2,782,120	49,981,794
Total liabilities	6,392,614	4,566,438	3,409,517	5,369,311	3,724,111	23,461,991

F-87

## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Business Segments					Consolidated
	2010					
	Brazil Operation	North America Operation	Latin America Operation	Special Steels Operation	Eliminations and Adjustments	
Net sales	13,013,351	8,835,777	3,487,531	6,610,887	(554,337)	31,393,209
Cost of sales	(10,179,791)	(7,997,509)	(3,021,612)	(5,312,148)	637,584	(25,873,476)
Gross profit	2,833,560	838,268	465,919	1,298,739	83,247	5,519,733
Selling expenses	(288,448)	(83,971)	(76,270)	(102,839)	(19)	(551,547)
General and administrative expenses	(855,921)	(435,400)	(161,599)	(250,046)	(102,948)	(1,805,914)
Reversal of impairment losses				336,346		336,346
Other operating income (expenses)	(3,083)	1,880	38,639	(22,003)	91,047	106,480
Equity in earnings of unconsolidated companies		31,450	15,624	(20,368)	12,748	39,454
Operational (Loss) income before financial income (expenses) and taxes	1,686,108	352,227	282,313	1,239,829	84,075	3,644,552
Financial income	168,903	(3,970)	36,172	229,348	(134,890)	295,563
Financial expenses	(382,927)	(256,627)	(70,538)	(226,223)	(161,318)	(1,097,633)
Exchange variations, net	130,959	29,669	20,565	(7,979)	(68,850)	104,364
Gain and losses on derivatives, net			(2,152)	10,253	4,291	12,392
Income before taxes	1,603,043	121,299	266,360	1,245,228	(276,692)	2,959,238
Income and social contribution taxes	(418,482)	26,288	(40,722)	(359,086)	290,143	(501,859)
Net income	1,184,561	147,587	225,638	886,142	13,451	2,457,379
Supplemental information:						
Net sales between segments	1,882,903	135,791		242,683	385,897	2,647,274
Depreciation/amortization	946,413	436,488	136,433	381,289	(7,549)	1,893,074
Investments in associates and jointly-controlled entities		217,641	804,832	26,993	215,054	1,264,520
Total assets	13,830,985	12,718,294	5,931,001	9,964,761	446,219	42,891,260
Total liabilities	5,157,551	6,346,213	2,882,484	5,380,224	2,886,884	22,653,356

	Business Segments					Consolidated
	2009					
	Brazil Operation	North America Operation	Latin America Operation	Special Steels Operation	Eliminations and Adjustments	
Net sales	10,596,318	8,293,434	3,137,088	4,777,119	(263,909)	26,540,050
Cost of sales	(7,516,373)	(7,703,052)	(3,069,705)	(4,383,848)	367,428	(22,305,550)
Gross profit	3,079,945	590,382	67,383	393,271	103,519	4,234,500
Selling expenses	(214,426)	(50,392)	(65,983)	(98,670)	(141)	(429,612)
General and administrative expenses	(754,915)	(435,418)	(183,591)	(273,916)	(66,654)	(1,714,494)
Impairment of assets		(165,134)	(136,491)	(770,565)		(1,072,190)

Edgar Filing: GERDAU S.A. - Form 20-F

Restructure costs		(49,238)		(101,469)		(150,707)
Other operating income (expenses)	(12,882)	(7,641)	(6,200)	80,199	34,871	88,347
Equity in earnings of unconsolidated companies		(15,578)	(61,840)	(37,506)	5,967	(108,957)
Operational (Loss) income before financial income (expenses) and taxes	2,097,722	(133,019)	(386,722)	(808,656)	77,562	846,887
Financial income	126,568	69,544	44,400	91,085	104,639	436,236
Financial expenses	(356,344)	(333,479)	(99,924)	(244,995)	(251,626)	(1,286,368)
Exchange variations, net	1,236,743	(76,573)	44,293	40,416	(183,996)	1,060,883
Gain and losses on derivatives, net	(22,122)		(4,393)	(46,673)	47,010	(26,178)
Income before taxes	3,082,567	(473,527)	(402,346)	(968,823)	(206,411)	1,031,460
Income and social contribution taxes	(770,960)	237,467	77,800	355,282	73,459	(26,952)
Net income	2,311,607	(236,060)	(324,546)	(613,541)	(132,952)	1,004,508
<b>Supplemental information:</b>						
Net sales between segments	1,749,444	92,107	44,634	130,564	253,205	2,269,954
Depreciation/amortization	736,880	558,108	85,316	389,841	(24,826)	1,745,319
Investments in associates and jointly-controlled entities		258,758	814,356	17,112	109,684	1,199,910
Total assets	13,513,608	13,673,637	5,461,071	10,599,300	1,335,700	44,583,316
Total liabilities	5,565,052	6,771,622	2,270,956	5,792,095	2,178,798	22,578,523

The main products by business segment are:

Brazil Operation: rebar, bars, 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.

Special 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 Consolidated Financial Statements.

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



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	Brazil	Latin America (1)	North America (2)	Europe/Asia	Geographic Area Consolidated
	2011	2011	2011	2011	2011
Net sales	15,420,736	4,382,887	13,359,007	2,244,150	35,406,780
Total assets	21,328,121	6,882,443	19,700,246	2,070,984	49,981,794
	Brazil	Latin America (1)	North America (2)	Europe/Asia	Consolidated
	2010	2010	2010	2010	2010
Net sales	15,039,852	3,487,531	11,126,942	1,738,884	31,393,209
Total assets	17,999,525	5,931,001	16,754,876	2,205,858	42,891,260
	Brazil	Latin America (1)	North America (2)	Europe/Asia	Consolidated
	2009	2009	2009	2009	2009
Net sales	12,436,068	3,137,088	9,465,451	1,501,443	26,540,050
Total assets	18,466,036	5,461,071	17,943,356	2,712,853	44,583,316

---

(1) Does not include operations of Brazil

(2) Does not include operations of Mexico

The IFRS standard requires that the Company disclose the revenue per product unless the information is not available and the cost to obtain it would be excessive. Additionally, the management does not consider this information useful for its decision making process, because it would aggregate sales for different markets with different currencies, subject to the effects of exchange rate variances. Pattern of steel consumption and price dynamics of each product or group of products in different countries and different markets within these countries are poorly correlated, thus the information would not be useful and would not serve to conclude about historical trends and evolutions. According to this scenario and considering that the information of revenue by product is not maintained on a consolidated basis and the cost to obtain the revenue per product would be excessive comparing to the benefits of the information, the Company does not present the revenue by product.

**NOTE 26 INSURANCE**

The subsidiaries have insurance coverage determined based on specialists' advice, taking into consideration the nature and the level of risk, in amounts that cover significant losses on their assets and/or liabilities. The main types of insurance are as follows:

Type	Scope	2011	2010
Equity	Inventories and property, plant and equipment items are insured against fire, electrical damage, explosion, machine breakage and overflow (leakage of material in fusion state).	30,682,963	24,170,655

Edgar Filing: GERDAU S.A. - Form 20-F

Business Interruption	Net income plus fixed expenses	7,706,275	5,370,143
Civil Liability	Industrial operations	231,922	206,672

**NOTE 27 IMPAIRMENT OF ASSETS**

The impairment test of goodwill and other long-lived assets is tested based on the analysis and identification of facts or circumstances that may involve the need to perform the impairment test. The Company performs 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.

To determine the recoverable amount of each business segment, the Company used the discounted cash flow method, taking as basis, financial and economic projections to each segment. The projections were updated taken into consideration observed changes in the economic scenario to the market where the Company performs its business, as well as premises of expected results and historical profitability to each segment.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**27.1 Goodwill impairment test**

The goodwill impairment test allocated to the operating segments is performed annually in December or whenever changes in events or circumstances indicate that the goodwill may be impaired.

The Company has four operating segments, which represent the lowest level in which the goodwill is monitored by the Company. The composition of goodwill by segment is presented in Note 11.

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

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

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

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



## Edgar Filing: GERDAU S.A. - Form 20-F

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

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

It is important to mention that events or significant changes in the panorama may result in relevant impairment of goodwill. As main risks, an eventual deterioration in the steel market, relevant downturn in the automotive and civil construction sectors, stoppage of industrial units of the Company and relevant changes in the economy or financial market that result in increase in the risk perception or reduction in the liquidity and refinancing capacity.

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

**27.2 Other long-lived assets Impairment test**

In the fourth quarter of 2010, due to the interruption of activities in one of the plants and mainly due to the lack of expectation to restart the operations on this unit, the tests identified impairment on Special Steel plant in the amount of R\$ 68,008.

In addition, in the fourth quarter of 2010, the Company also in the special steel segment reversed Impairment due to restart the production process in one unit, which had impairment losses recognized in 2009, totaling R\$ 218,391. The recoverable amount on fixed assets was defined based on present value, with a discount rate used on impairment test of 12.5% (13.30% in December 2009), in a total of R\$ 188,163. The losses and the reversal of recognized losses on fixed assets were recognized in the account Reversal of impairment (impairment) of assets in the consolidated income statements.

In the fourth quarter of 2010, also in the Special Steel segment, the Company reversed impairment losses for other intangible assets, due to the reestablishment of the customer relationships value because of the resumption of automotive industry demand, which suffered impairment recognized in 2009, in a total of R\$ 304,425. The impairment tests for other intangible assets identified the need to reverse this impairment in a total of R\$ 216,191, which is based on the recovery of their customer portfolio, related to the automotive industry. The other intangible assets recoverable amount is their value in use and the discount rate used on the impairment test for 2010 was 12.50% (13.3% in December 2009). The losses and the reversal of recognized losses on other intangible assets were recognized in the account Reversal of impairment (impairment) of assets in the consolidated income statements.

In December 2011, the Company has not identified impairment loss for other long-lived assets for the year.

Despite the circumstances considered in the test indicates an improvement in the economic and steel context, futures uncertainty in the market remain. Therefore, the Company believes that the scenarios used in the impairment test, performed in December are the best estimate for the results and future cash generation for each segment. The Company will continue to monitor the results in 2012, which will indicate the reasonableness of future projections utilized.

**NOTE 28 EXPENSES BY NATURE**

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



## GERDAU S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2011, 2010 and 2009

(in thousands of Brazilian reais R\$, unless otherwise stated)

	2011	2010	2009
Depreciation and amortization	(1,771,881)	(1,893,074)	(1,745,319)
Expenses with personnel	(4,736,613)	(4,221,780)	(3,614,853)
Raw material and consumption material	(21,945,792)	(18,246,980)	(15,518,869)
Freight	(1,843,952)	(1,560,456)	(1,183,220)
Reversal (impairment) of assets		336,346	(1,072,190)
Restructuring costs			(150,707)
Others expenses	(2,292,196)	(2,202,167)	(2,299,048)
	(32,590,434)	(27,788,111)	(25,584,206)
Classified as:			
Cost of sales	(30,298,232)	(25,873,476)	(22,305,550)
Selling expenses	(603,747)	(551,547)	(429,612)
General and administrative expenses	(1,797,937)	(1,805,914)	(1,714,494)
Reversal (impairment) of assets		336,346	(1,072,190)
Restructuring costs			(150,707)
Other operating income	195,015	207,320	190,157
Other operating expenses	(85,533)	(100,840)	(101,810)
	(32,590,434)	(27,788,111)	(25,584,206)

## NOTE 29 FINANCIAL INCOME

	2011	2010	2009
Income from short-term investments	265,766	174,622	254,292
Interest income and other financial incomes	190,036	120,941	181,944
Financial Income	455,802	295,563	436,236
Interest on the debt	(828,105)	(919,594)	(992,693)
Monetary variation and other financial expenses	(142,352)	(178,039)	(293,675)
Financial Expenses	(970,457)	(1,097,633)	(1,286,368)
Exchange Variation, net	51,757	104,364	1,060,883
The gains and losses on financial instruments, net	(65,438)	12,392	(26,178)
Financial result, net	<b>(528,336)</b>	<b>(685,314)</b>	<b>184,573</b>

## NOTE 30 SUBSEQUENT EVENTS

## Edgar Filing: GERDAU S.A. - Form 20-F

On January 11, 2012, the Board of Directors authorized the Company to acquire shares of its own issuance in order to attend the Long-Term Incentive Plan. The acquisitions were made from January 12, 2012, with a maximum term until January 20, 2012, using resources supported by retained earnings, respecting the limit of 2,693,000 preferred shares, being 1,393,000 in the form of American Depositary Receipts - ADRs. The shares acquisition was concluded with 2,693,000 preferred shares acquired, including 1,393,000 in the form of ADR s, in a total amount of R\$ 44,932.

F-92

---

**GERDAU S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**for the years ended December 31, 2011, 2010 and 2009**

**(in thousands of Brazilian reais R\$, unless otherwise stated)**

\*\*\*\*\*

F-93

---