

# Finance

Financial management with a focus on added value for shareholders

## RESULTS

- The Gerdau Group had a consolidated net profit of R\$ 821 million in 2002, 49% higher than the R\$ 550.9 million recorded in the previous year. The main factors responsible for this growth were the expansion of demand in Brazil, increased exports and the effect of the exchange rate on operations in the United States, Canada, Chile, Argentina and Uruguay.
- The net margin for the same period was reduced from 9.36% to 8.96% as a result of the exchange rate impact on financial expenses.



Listing of Gerdau shares on the Madrid Stock Exchange (Latibex)

■ The listed companies in Brazil, Metalúrgica Gerdau S.A. and Gerdau S.A., distributed a total of R\$ 452.4 million in interest on capital stock and dividends, 88.2% more than in 2001. Of this total, R\$ 186.5 million went to shareholders of Metalúrgica Gerdau S.A. and R\$ 265.9 million to those of Gerdau S.A. These payments represented a yield of 16.6% and 7.1%, respectively, on preferred shares traded on the stock market.

Dividend and interest on capital stock per one thousand shares (in Brazilian reais)

		Metalúrgica Gerdau S.A.		Gerdau S.A.	
		Common Shares	Preferred Shares	Common Shares	Preferred Shares
1 <sup>st</sup> half	Interest on capital stock	1.73	1.73	0.70	0.70
2 <sup>nd</sup> half	Interest on capital stock	4.04	4.04	1.63	1.63
	Dividends	0.96	0.96	-	-
Yearly total		6.73	6.73	2.33	2.33

■ The distribution policy for dividends or interest on capital stock determines a minimum of 30% of adjusted net profit for each fiscal period. As of the beginning of 2003, the values formerly distributed per semester are now paid quarterly.

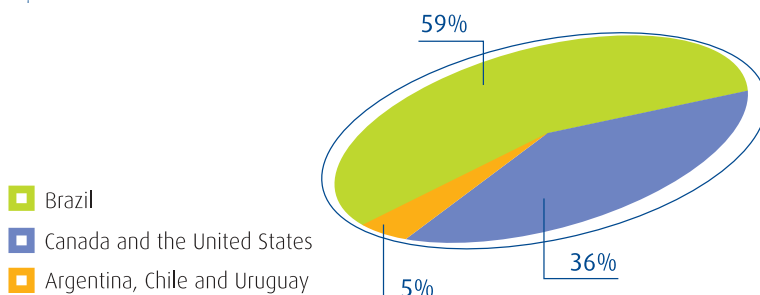
■ EBITDA – earnings before interest, taxes, depreciation and amortization – totaled R\$ 2.1 billion, 64% higher than in 2001. The EBITDA margin grew from 21.78% to 22.95%.

■ Gross profit increased by almost R\$ 1 billion to a total of R\$ 2.6 billion, a growth of 58.6%. During the year, cost-cutting and productivity measures compensated for the increase in prices of certain raw materials – mainly scrap and pig iron – and allowed for a gross margin of 28.63%, compared to 28.08% in 2001.

■ Net revenue grew 55.6% to R\$ 9.2 billion, up from R\$ 5.9 billion. Gross sales increased at around the same rate, up 57.3% to R\$ 11.1 billion.

#### CONSOLIDATED GROSS SALES REVENUE

R\$ 11.1 billion





From top: São Paulo Stock Exchange, Toronto Stock Exchange, New York Stock Exchange and Madrid Stock Exchange

- Net operating cash flow was up 36.6% to R\$ 1.6 billion. This represents 17.7% of net sales revenue, compared to 20.1% in the previous year.

- The devaluation of the Brazilian real *vis-à-vis* the US dollar had a strong impact on US dollar-denominated debts contracted in Brazil and not covered by hedges, resulting in additional financial expenses of R\$ 607.1 million. On the other hand, the same exchange rate variation, added to the merger of the North American operations, generated an increase of R\$ 447.5 million on investments outside Brazil. In consolidated terms, the exchange rate effect on assets and liabilities resulted in a net loss of R\$ 159.6 million.

- Açominas ended the fiscal year with its third consecutive net profit, a feat not achieved since it started operating, back in 1986. The result was, in fact, R\$ 62.7 million (32.7% less than in the previous year), mainly because of an accident that occurred in the blast furnace cowper in March. Both the equipment and the lost profits were covered by an insurance policy with an indemnity limit of US\$ 850 million. Work with the insurers is continuing as expected, and an advance of R\$ 62 million has been received from IRB – Brasil Resseguros.

### INDEBTEDNESS

- At the end of the fiscal year, the consolidated gross indebtedness was R\$ 7.1 billion. This represents an increase of 71.3% over the previous period, mainly as a result of the consolidation of liabilities from the merged Co-Steel, the payment for the increased participation in Açominas and the devaluation of the Brazilian real against the US dollar. On the other hand, total assets grew 48.9% to R\$ 14.6 billion.

- Short term debt was R\$ 3.7 billion, representing 52.4% of the total. It consisted of R\$ 518.5 million in Brazilian reais, R\$ 1.6 billion in foreign currency contracted by the companies in Brazil and R\$ 1.6 billion from operations contracted abroad.

■ Long term debt, equal to 47.6% of the total, reached R\$ 3.4 billion, of which R\$ 1 billion in Brazilian reais, R\$ 897.9 million in foreign currency contracted by the companies in Brazil and R\$ 1.5 billion from operations abroad.

■ A number of swaps were performed in the last two years by the Gerdau Group, with the objective of providing protection against volatility of the Brazilian currency against the US dollar. Debts in dollars were exchanged for reais indexed at an average of 70% of CDI. At December 31, 2002, of a total of R\$ 2.5 billion in debts contracted in foreign currency by the companies in Brazil, R\$ 2 billion was protected against such variations.

■ EBITDA represented 5.9 times net financial expenses, not including monetary and exchange variations. Net indebtedness was equal to 2.7 times EBITDA for the last 12 months.

■ At the end of the year, cash and equivalents showed a balance of R\$ 1.4 billion, compared to R\$ 1 billion for the previous year, representing a growth of 41.5%. Of this total, 65.6%, or R\$ 931.5 million, was indexed to the US dollar.

## STOCK MARKETS

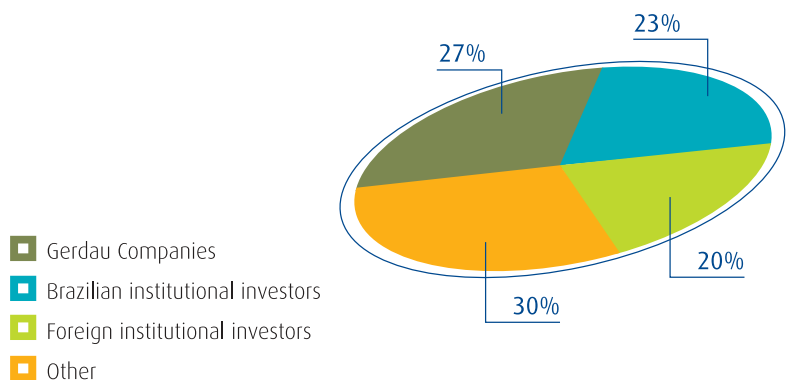
■ In 2002, shares of Gerdau AmeriSteel, the parent company of the Group's North American operations, were listed on the Toronto Stock Exchange in Canada. This expanded presence resulted from the merger of the Group's operations in the United States and Canada with those of Co-Steel, the shares of which have been traded under the new name since the end of October 2002.

■ In December, shareholders of Gerdau S.A. gained an additional source of liquidity for their shares: the Madrid Stock Exchange. With the Company's listing on the Latibex, the index for Latin American companies on the Spanish exchange, each of the Company's shares traded in that country generates a trade in Brazil.

■ The concession of the tag along right to all Metalúrgica Gerdau S.A. and Gerdau S.A. shareholders, regardless of the type or class of shares, was another important event in the year. In the event of transfer of Company control, minority shareholders now have the right to receive 100% of the value paid to members of the controlling block. This benefit is higher, in percentage terms, and more comprehensive than that required by Brazilian corporate law, which establishes the payment of 80% of the value of shares of the controlling block only to holders of common shares.

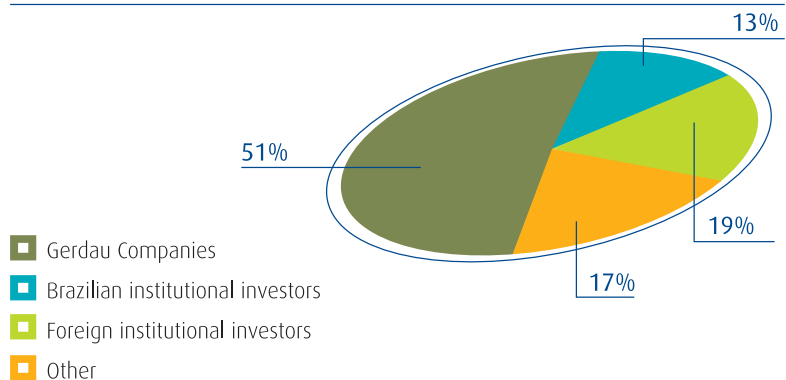
### DISTRIBUTION OF CAPITAL STOCK

Metalúrgica Gerdau S.A.

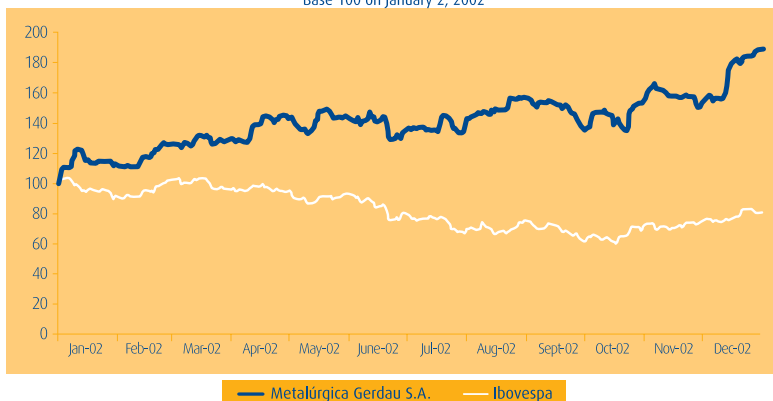


### DISTRIBUTION OF CAPITAL STOCK

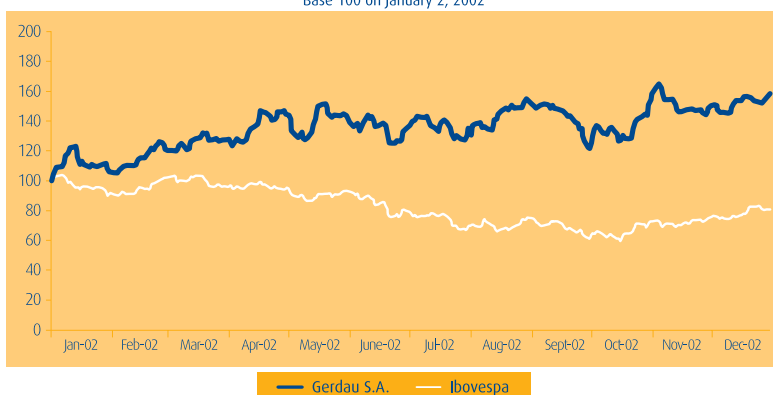
Gerdau S.A.



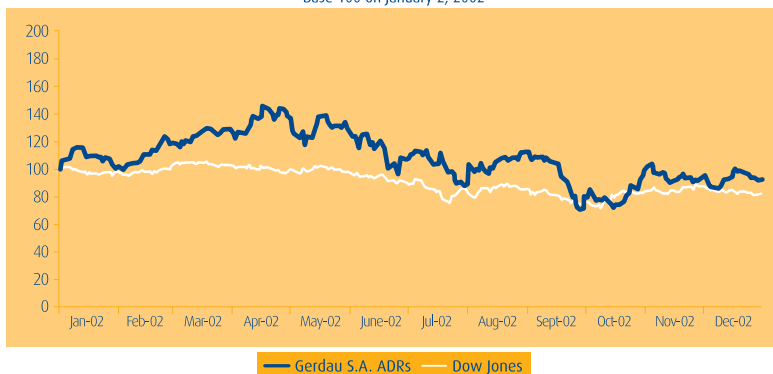
SHARE PRICE DEVELOPMENT  
PREFERRED SHARES PRICES  
Metalúrgica Gerdau S.A. vs. Ibovespa  
Base 100 on January 2, 2002



SHARE PRICE DEVELOPMENT  
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SHARE PRICE DEVELOPMENT  
PREFERRED SHARES PRICES  
Gerdau S.A. vs. Dow Jones  
Base 100 on January 2, 2002



■ Gerdau S.A. shares moved R\$ 1.4 billion on the São Paulo Stock Exchange in 2002, 114.4% more than in the previous year, a daily average of R\$ 5.5 million. The value of preferred shares rose 73.7% and, together with the common shares, closed the year with 54,716 trades. The Company is a member of the São Paulo Stock Exchange Program of Corporate Governance (Level 1).

■ Gerdau S.A. ADRs on the New York Stock Exchange moved an average of US\$ 569,700 per day, a total of US\$ 144.1 million.

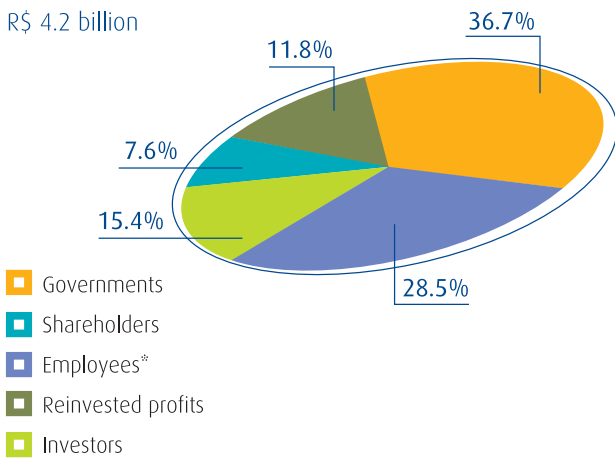
■ Metalúrgica Gerdau S.A. totaled 9,759 trades on the São Paulo Stock Exchange and moved R\$ 303 million, up 22.5% on 2001. The value of preferred shares rose 103.1% for the year, with a daily trading volume of R\$ 1.1 million.

■ The free float (shares that are not held by the controlling block) represents 48.5% of the capital stock of Gerdau S.A. and 73.2% of Metalúrgica Gerdau S.A.

■ Under its transparency policy, the Gerdau Group discloses detailed information regarding its operations on its website and through the Investor Relations Department. It discusses quarterly results at meetings with the stock market and through conference calls that are also broadcast via the Internet. These events, held throughout the year, involve around 1,500 professionals in Brazil, North America and Europe.

**DISTRIBUTION OF VALUE ADDED**  
Metalúrgica Gerdau S.A. Consolidated

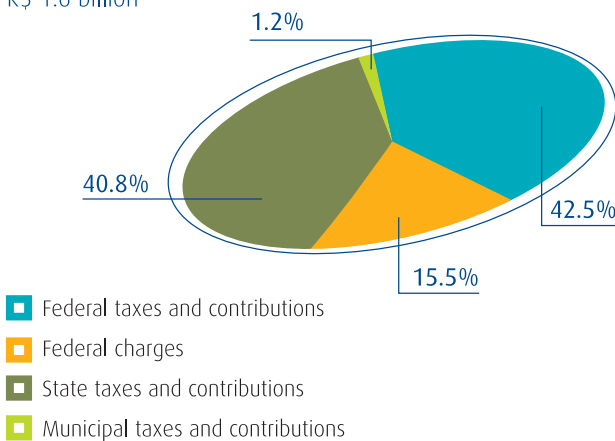
R\$ 4.2 billion



\* Including incentive plan in North American companies.

**TAXES, SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES**  
Metalúrgica Gerdau S.A. Consolidated

R\$ 1.6 billion



**RISK MANAGEMENT**

**Markets and Business Cycle**

■ In Brazil, the Gerdau Group has expanded its business through exports. In 2002, these were responsible for 20.7% of sales volume, allowing the Company to maintain its level of activity and increase the flow of foreign currency into the country. During this year, presidential elections brought a period of great volatility for the financial markets, also affected by the climate of uncertainty regarding other economies around the world. As a consequence, the value of the Brazilian real against the US dollar varied 52.3% over the year, while the interest rate, managed following an orthodox model, was raised to 25% to keep inflation under control.

■ The devaluation of the Brazilian currency resulted in a 77% increase in the volume of exports by the Gerdau Group. This added demand was met through greater use of production capacity at the mills, without straying from the focus on servicing the domestic market.

■ For 2003, the Brazilian Central Bank predicts growth of 1.95% in the country's GDP, superior to the 1.5% achieved in 2002. This should be reflected favorably in the demand for long steel products, the sector in which the Gerdau Group's activities are concentrated.

■ In the first half of 2002, the Group's operations in Argentina were restructured, transforming the SIPSA rolling mill in San Luis province into a wholly-owned subsidiary of Sipar, in which the Gerdau Group holds a 38.2% stake. This new structure allows for the maximization of business opportunities and strengthens the results of the two companies.

■ The International Monetary Fund's expectation is that Chile will experience economic growth of around 3.1% in 2003, which should sustain the strong demand for steel products in the region. The IMF expects Argentina to experience GDP growth after four years of recession, while the tendency of the Uruguayan economy is to reverse its negative performance.

■ In 2002, the United States and Canada experienced GDP growth of 2.4% and 3.4%, respectively. The coming year promises reductions in these levels.

■ The expectation is that steel imports to North America will continue to decline as a result of the weaker dollar and increased steel prices on the international market. In this context, Gerdau's operations should experience improvements as a result of internal adjustments and the implementation of systems for improved customer services and reduced operating and logistics costs.

#### **Foreign Exchange**

■ The internationalization of the Gerdau Group has resulted, over the years, in a natural protection of assets against exchange rate variations. The geographical distribution of its assets and the generation of revenues in a number of countries minimize the effects of fluctuating currency values, reducing their impact on the balance sheet.

■ In the consolidated results, the investments abroad counterbalance the negative effects of the devaluation of the Brazilian real on US dollar-denominated financial liabilities in Brazil. The opposite effect occurs when the real appreciates against the dollar, reducing the value of foreign investments.

■ Exports and financial swaps, in which the exchange risk is transferred to Brazil's currency risk, have also contributed to reducing the impacts of exchange rate variations on results.

#### **Financial Information**

■ The Company's assets are managed within a conservative and defensive approach. With this focus, the Gerdau Group has developed asset protection strategies, through the creation and monitoring of indicators that are stricter than those required by the financial market.

■ This process uses widely recognized indicators such as interest cover ratio and total debt/total market capitalization.

#### **Technology**

■ The Group invests constantly in the modernization of its units. This practice represents an average annual investment of US\$ 200 million, which allows Gerdau's units to operate with the most up-to-date technology available in their sectors.

## Consolidated Cash Flow

METALÚRGICA GERDAU S.A.

(By corporate law – in thousands of reais)

	2002	2001
Net profit	821,016	550,882
Equity pickup	(447,483)	(182,474)
Provision for credit risk	5,452	12,407
Gain/loss in fixed asset disposal	8,190	24,120
Gain/loss in liquidation of investments	27,614	5,401
Exchange on long term debt	761,826	158,758
Depreciation and amortization	511,929	391,194
Income tax and social contribution	10,142	6,973
Interest paid	464,260	250,680
Contingencies/legal deposits	2,191	(11,155)
Increase (decrease) in trade accounts payable	(161,318)	81,109
Changes in inventories	(222,708)	(51,854)
Changes in trade accounts payable	(46,140)	62,935
Other operating accounts	(116,930)	(114,168)
<b>Net cash provided by operating activities</b>	<b>1,618,041</b>	<b>1,184,808</b>
Fixed assets acquisitions/disposals	(565,851)	(444,283)
Deferred charges	(6,134)	(2,858)
Investments acquisitions/disposals	(913,011)	(335,908)
<b>Cash (applied to) investing activities</b>	<b>(1,484,996)</b>	<b>(783,049)</b>
Fixed asset suppliers	(13,449)	(10,843)
Working capital financing	640,514	(29,969)
Debentures	242,659	(45,703)
Proceeds from fixed assets financing	1,476,379	909,953
Payments of fixed assets financing	(1,823,826)	(749,918)
Interest paid for financing	(351,052)	(208,486)
Inter company loans	845	(10,356)
Dividend/interest and statutory participation payment	(259,366)	(135,061)
<b>Cash provided by (applied to) financing activities</b>	<b>(87,296)</b>	<b>(280,383)</b>
<b>Net change in cash</b>	<b>45,749</b>	<b>121,376</b>
<b>CASH BALANCE</b>		
At the beginning of the period	1,003,384	689,170
Effects of exchange rate changes on cash	318,717	73,490
Initial balance (companies consolidated in the year)	52,386	119,348
At the end of the period	1,420,236	1,003,384
<b>CASH COMPOSITION</b>		
Temporary cash investments	1,345,717	994,691
Cash	74,519	8,693