



Message from the Board

Corporate culture based on balance between growth and profitability

World scenario

In 2002, the production of steel reached 887 million tons worldwide, 6.4% higher than in the previous fiscal year. The good performance of the sector resulted mainly from the increased demand from China, one of the countries that contributed most to the growth of the global steel industry in 2002.

During the past fiscal year, the world economy grew by 1.9%. Growth was limited mainly by Europe's poor performance and by a slowdown in the Japanese economy. Although last year's performance was higher than the 1.2% growth verified in the previous fiscal year, it confirmed the slower growth rate of the world economy as shown in International Monetary Fund data on the past 10 years.

Positive performance and expanding operations

The Gerda Group followed the trend of the steel sector and once again reached the end of the year with positive figures. The Company's production reached 9.4 million tons of crude steel, up 28% in comparison to 2001. A consistent growth trend was also observed in terms of financial performance, as reflected in the Company's consolidated return on equity, which has increased from 19% to 22% in the past three years. The consolidated net profit also showed a significant growth: R\$ 821 million against R\$ 406 million in 2000.

In Brazil, Gerda's units were able to fully meet the domestic demand and achieved record levels in exports, mainly to Asia. The Argentinean and Uruguayan operations adjusted their production to the local demand, still under the impact of an economic recession. Chile resumed investments in roads, bridges and overpasses, and as a consequence the demand for Gerda AZA products increased in 2002.

In 1999, the Gerda Group joined in the intense consolidation process of the steel sector in North America by acquiring the control of AmeriSteel. The initiative was based on the cash generation capacity and leverage of Gerda's Canadian units (currently Cambridge and MRM Special Sections). With a view to becoming an international, world-class steel company, Gerda strengthened its role in the United States two years later with a fifth mill, located in

the state of Georgia. In 2002, the Company merged its North American operations with those of Co-Steel.

The deal, which was completed in October 2002, resulted in the creation of Gerdau AmeriSteel Corporation, the second largest producer of long steel in the region. The Group's installed capacity in North America was increased by approximately 90% to 6.6 million metric tons. It also inaugurated the Group's participation in the flat steel market, with a stake in Gallatin Steel. The strategy followed combined low investment in installed capacity with the acquisition of a major market share.

New corporate governance

The year was also marked by the implementation of a new corporate governance structure, whose aim is to broaden management efficiency, increase transparency and guarantee the succession process without losing accumulated experience.

The current management structure, modeled on the perspective of constructive transition, split the previous Board of Directors into a Board of Directors and an Executive Committee. This enabled a new generation of leaders to take on strategic roles in the business. In addition, three independent members have also been included as part of the Board of Directors.

Prospects: evolution of the Gerdau Group

The limits for worldwide growth in 2003 will be determined by the recovery capacity of the economy. The prospects for Brazil and for the other Latin American countries where the Group operates are more favorable than in 2002. The region's operations have signaled increasing delivery volumes.

However, it is mandatory that the fiscal and social security reforms announced by the

Brazilian government be implemented. These reforms are essential to relieve the burden from the domestic economy and enable the country to achieve true competitive equality. It is also important to underscore the need to improve the efficiency of the Brazilian public sector, a key to the country's development.

In North America, Gerdau AmeriSteel continues its search for potential synergies between recycling units, steel mills and downstream operations. The integration between these companies' cultures has been occurring at a quick pace, with teams dedicated to optimizing the logistical structure, increasing the operating margin and broadening the quality of products and services.

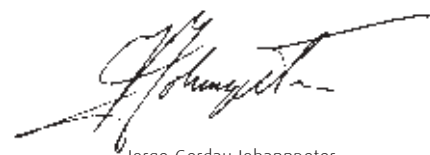
Confidence that this enterprise will be successful is also based on the Group's experience in increasing the productivity and consequently the profitability of the companies which it controls, such as Gerdau AmeriSteel Cambridge, in Canada, and Aços Finos Piratini, Usiba and Açominas, in Brazil. Future gains resulting from increased efficiency and output in all Gerdau AmeriSteel units will be reflected in financial statements and later allow for new steps to be taken towards greater consolidation in the region. The potential for increased productivity indicates that the Company may achieve maximal profitability, above the 15% mark, on the North American investments within three years at the most, a progressive task which will be carried out step by step.

On the global scenario, we will strive to maintain increasing levels of production, with volumes adjusted to each market and an expected annual output of 12 million metric tons of steel in 2003. This could mean an expansion 25% higher than that observed in the previous fiscal year. The positive prospects reflect the full consolidation of Co-Steel during the year and the increased production of Gerdau units.

Throughout our history, we have worked to add value for shareholders, even when facing adverse economic conditions. Such practice allowed us to go beyond our 100th anniversary with positive results in every single fiscal year. Our commitment, however, is not restricted to operating and financial performance: we continue to contribute towards sustainable economic development in the social and environmental arenas.

Acknowledgement

We would like to thank all of those who have had a direct or indirect participation in the continuous construction of the Gerdau Group: employees, shareholders, investors, suppliers and community members. We also pay special homage to our 178,000 customers, the basis for the continuity of our business.



Jorge Gerdau Johannpeter
Chairman