



Finance

IMPRESV

RESULTS

In 2004, the Gerdau Group's gross revenues grew 48.3% from R\$ 15.8 billion in 2003, reaching R\$ 23.4 billion. Increased international steel consumption was boosted mainly by the economic growth of China and the United States. This scenario elevated international steel prices. For the Gerdau Group, the average dollar value per metric ton exported from Brazil increased 62.4%. In addition, the improved performance of South American operations, the consolidation of the new industrial units in North America and the recovery of economic growth in Brazil contributed significantly to the positive consolidated performance. As a result of this favorable scenario, net sales increased 46.6% to R\$ 19.6 billion. Consolidated net income was R\$ 3.3 billion, up from R\$ 1.3 billion in the previous year – an increase of 165.8%.

Net margins (ratio between net income and net sales revenue) grew to 17.1% in 2004 from 9.4% in 2003, and gross margins increased 7.3 percentage points to 31.9%.

Operating expenses (sales, general and administrative) represented 7.7% of net sales revenue in 2004 against 9.4% in 2003, and totaled R\$ 1.5 billion.

EBITDA (earnings before interest, taxes, depreciation and amortization) increased 108.4%, reaching R\$ 5.5 billion.

Net financial expenses (financial expenses minus financial revenues), excluding foreign exchange effects and monetary variations, totaled R\$ 253.1 million. Considering foreign exchange revenues of R\$ 119.2 million and monetary variation expenses of R\$ 14.5 million, the interest paid in the year was R\$ 148.4 million.

In 2004, the Group's investments outside Brazil, converted into Brazilian currency, reflected the 8.1% devaluation of the U.S. dollar in relation to the real. The foreign exchange effect is accounted for in the equity pick-up line of the balance sheet, which also includes, among others, amortization of goodwill in the period. As a result, a negative balance of R\$ 344.6 million was recorded for equity pick-up in 2004.

INDEBTEDNESS

Net debt (gross debt minus cash and cash equivalents and short-term investments) was reduced by 22.4% from R\$ 5.3 billion to R\$ 4.1 billion. The average life of debt increased from 2.6 to 4.2 years in 2004.

Gross debt in 2004 was R\$ 6.1 billion compared to R\$ 6.3 billion in 2003 (a reduction of 3%). Short-term debt also decreased by 17.6% to R\$ 2 billion. Long-term debt was R\$ 4.1 billion (+6.4%), which reflects the lengthening of debt maturity and translates into higher flexibility for business management. From the total debt, 18.6% is in Brazilian currency, 38.7% is pegged to the U.S. dollar, and the remaining 42.7% comes from the Group's operations outside Brazil.

Even with the acquisition of new assets in 2004, the net interest (financial expenses minus financial revenue, excluding currency exchange variation) per metric ton sold was R\$ 22.36, almost half the amount recorded in the previous year. This indicates that the Gerdau Group's expansion did not compromise profitability or operating performance during the year.

In December, the balance of cash, cash equivalents and financial investments was R\$ 2 billion, of which 69.5% (R\$ 1.4 billion) was indexed to the U.S. dollar. The financial resources invested in 2004 almost doubled in relation to 2003, reflecting a growth in cash generation.

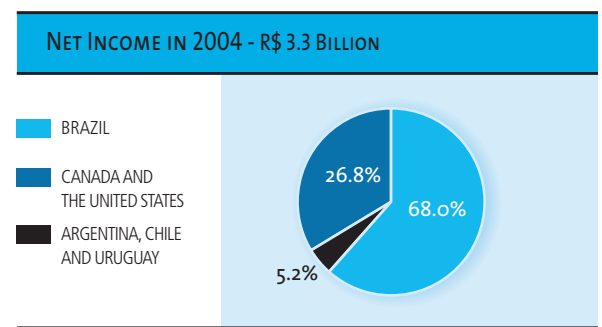
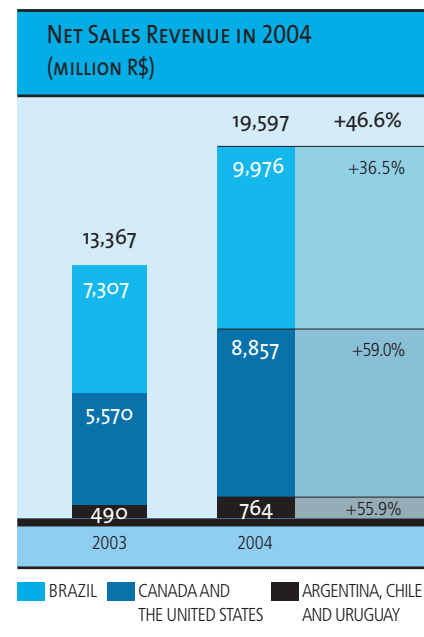
The strong generation of operating cash (EBITDA) resulted in improved debt payment capacity and availability to undertake new commitments to expand the business. In 2004, the ratio between net debt and EBITDA was 0.7, well below the limit of 2.5 established in the Group's indebtedness policy.

FINANCIAL OPERATIONS

In June, Gerdau Açominas S.A., the company responsible for the Group's steel operations in Brazil placed the second tranche of its Export Receivable Notes program. This was important to lengthen the company's debt profile. The operation yielded US\$ 128 million with maturity in eight years and an annual interest rate of 7.321%. The transaction was completed in parallel with a derivative instrument (US Treasury Lock), which reduced the effective cost to 6.798% per year.

In October, a US\$ 110 million operation in euro commercial papers, with maturity on October 12, 2005 and annual interest of 3%, was concluded.

In December, Gerdau Açominas S.A. obtained a US\$ 240 million loan to upgrade the Ouro Branco mill (state of Minas Gerais) as part of the plant's expansion project. The guarantee for the operation was given by Nippon Export and Investment Insurance (NEXI), a credit agency associated with the Japanese government. The NEXI guarantee covers 97.5% of the political risk and 95% of the commercial risk. That means that both the risks related to the Brazilian policy for payments sent to foreign countries (political risk) and the risks related to compliance with commitments undertaken by the company (commercial risk) are covered. The total term for this loan is seven years, including two years of grace and five years for amortization. The operation, called an untied loan, is unique in that it is not linked to the origin of the equipment supplied. In addition, the loan does not require any additional guarantee from the company and there is no link with imports or receivables from exports.



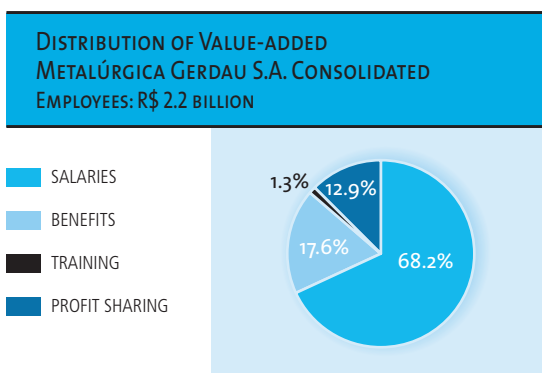
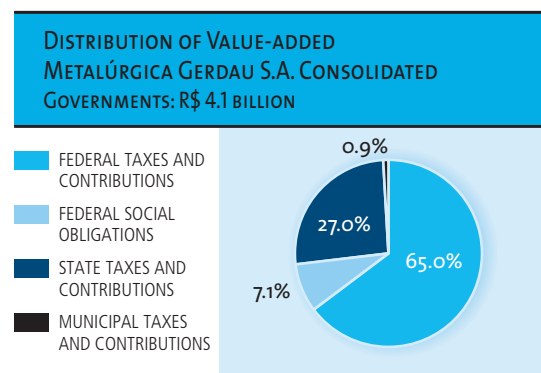
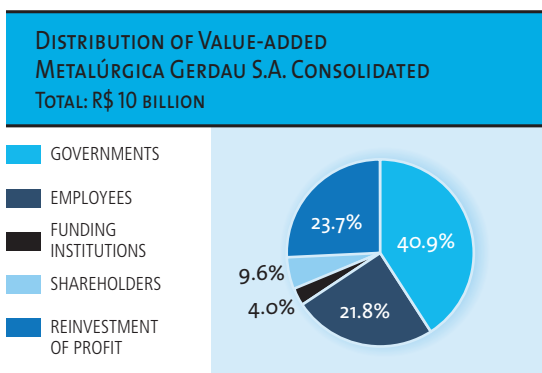
FINANCIAL INDICATORS	2004 ¹	2003
FIRM VALUE ² /EBITDA ³	3.3x	5.4x
NET DEBT/EBITDA	0.7x	2.0x
NET DEBT/TOTAL CAPITALIZATION	34.2%	52.1%
EBITDA/NET FINANCIAL EXPENSES ⁴	21.8x	5.2x
NET INCOME/NET EQUITY	42.5%	26.0%

1. The improvement of indicators is due to the positive performance in 2004 which is reflected, for example, in the increase in EBITDA and net income as well as in the reduction of net debt and net financial expenses.

2. Firm value: market value less net debt (Gerdau S.A. Consolidated).

3. EBITDA: earnings before interest, taxes, depreciation and amortization.

4. Net financial expenses: financial expenses minus financial revenue, excluded foreign exchange effects and monetary variation.



ONE CENTURY OF PROFITS

For more than 100 years the Gerdau Group has believed that growth and profitability must be balanced. Our results are the ultimate proof that we follow this policy. Throughout its history, the Gerdau Group has always recorded positive results, even in adverse economic scenarios. Ethical values, well trained employees, professional management, financial seriousness, industrial and commercial competitiveness – all have been at the foundation of a solid and safe expansion. Today, the Gerdau Group works to retain its position as one of the most profitable and efficient steelmakers in the world.

CONSOLIDATED CASH FLOW
METALÚRGICA GERDAU S.A.
(in thousand R\$)

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
NET INCOME FOR YEAR	1,437,075	575,179	3,341,097	1,256,874
EQUITY PICKUP	(1,342,842)	(610,001)	344,628	281,240
PROVISION FOR CREDIT RISK	-	-	7,647	20,618
GAIN IN FIXED ASSET DISPOSAL	-	-	9,058	10,056
GAIN/LOSS IN LIQUIDATION OF INVESTMENTS	(170,953)	(1,445)	(164,058)	(1,556)
MONETARY AND EXCHANGE VARIATION	5,198	5,563	(94,087)	136,349
DEPRECIATION AND AMORTIZATION	145	149	766,819	605,045
INCOME TAX AND SOCIAL SECURITY CONTRIBUTION	47,393	8,420	505,551	(441,456)
INTEREST ON DEBT	778	14	412,152	593,308
CONTINGENCIES/LEGAL ESCROW	(940)	18	4,351	562
CHANGES IN TRADE ACCOUNTS RECEIVABLE	-	-	(720,363)	(167,134)
CHANGES IN INVENTORIES	-	-	(1,402,408)	(207,267)
CHANGES IN CONTRACTORS	58	(27)	477,292	187,227
OTHER ACCOUNTS IN OPERATING ACTIVITIES	(33,737)	8,656	(100,288)	74,557
NET CASH PROVIDED BY OPERATING ACTIVITIES	(57,825)	(13,474)	3,387,391	2,348,423
FIXED ASSETS ACQUISITION/DISPOSAL	-	-	(1,173,491)	(873,039)
DEFERRED CHARGES	-	-	(18,006)	(7,246)
INVESTMENTS ACQUISITION/DISPOSAL	155,144	5,097	362,905	(67,005)
ACQUISITION OF ASSETS	-	-	(924,457)	-
PROCEEDS FROM DIVIDENDS/INTEREST ON CAPITAL STOCK	351,884	185,108	-	-
CASH APPLIED TO INVESTMENTS	507,028	190,205	(1,753,049)	(947,290)
FIXED ASSETS SUPPLIERS	-	-	144,573	2,196
WORKING CAPITAL FINANCING	(7,778)	(7,015)	(133,006)	(334,804)
DEBENTURES	(586)	(423)	85,305	(347,456)
PROCEEDS FROM FIXED ASSETS FINANCING	-	-	762,766	454,989
PAYMENTS OF FIXED ASSETS FINANCING	-	-	(677,357)	(541,308)
PAYMENT OF INTEREST ON FINANCING	-	-	(379,801)	(414,409)
INTER-COMPANY LOANS	2,839	(2,506)	35,944	(16,937)
CAPITAL INCREASE/TREASURY STOCK	(14,441)	(7,049)	451,704	(24,151)
PAYMENT OF DIVIDENDS/INTEREST ON CAPITAL STOCK AND STATUTORY PARTICIPATIONS	(358,623)	(198,413)	(853,710)	(423,399)
NET CASH PROVIDED BY FINANCIAL ACTIVITIES	(378,589)	(215,406)	(563,582)	(1,645,279)
CHANGE IN CASH BALANCE	70,614	(38,675)	1,070,760	(244,146)
CASH BALANCE				
AT THE BEGINNING OF THE PERIOD	25,186	63,861	1,015,726	1,420,236
UPDATE OF INITIAL CASH BALANCE	-	-	(82,541)	(173,736)
INITIAL BALANCE OF COMPANIES CONSOLIDATED IN THE YEAR	-	-	-	13,372
AT THE END OF THE PERIOD	95,800	25,186	2,003,945	1,015,726