

MESSAGE FROM THE CHAIRMAN



A POSITIVE YEAR FOR THE GERDAU GROUP

In 2005, the Gerdau Group once more returned positive results, reflecting a consistent strategy of seeking a balance between growth and profitability. Net profit was R\$ 3.3 billion, matching the industry record set by the company in the previous year. Gross revenues reached R\$ 25.5 billion (up 8.9%) with steel production at 13.7 million metric tons (up 1.7%).

This performance is explained by the ongoing efforts to improve management processes and by the current positive phase in the steel sector. Global steel production again topped 1 billion metric tons, chiefly driven by international demand, especially from China.

AN ACTIVE ROLE IN THE CONSOLIDATION OF THE SECTOR

In 2005, we expanded our presence to Europe through the acquisition of 40% of the equity of Sidenor Corporation, Spain's largest producer of cast, forged and specialty steel. The deal, completed in 2006, represents an investment of € 340 million for the Gerdau Group, with the company's debt corresponding to US\$ 138.7 million.

This investment means an increase in the production of specialty steel, a market sector with high added value. In recent years, we have become an important supplier of this input to the automotive industry, through Gerdau Aços Especiais Piratini (state of Rio Grande do Sul). This experience has led us to expand our specialty steel business beyond the Americas and to seek new opportunities.

In addition, we finalized the acquisition of majority control of the Diaco Group and Sidelpa, Colombia's largest producer of long steel and sole specialty steelmaker, respectively. In Argentina, we also gained majority control of Sipar, a rolling mill operating in the long steel sector and in which we already had an equity investment.

In the United States, much work was needed at Gerdau Ameristeel to integrate North Star Steel units, acquired at the end of 2004. The new mills, located in the states of Iowa, Minnesota, Texas, Kentucky and Tennessee, represented expanded geographical coverage and increased supply of Gerdau products.

The Group's technological upgrade and expansion program is also worthy of note, totaling US\$ 3.8 billion over the next three years. Of this, US\$ 2.5 billion will be invested in Brazil, US\$ 143 million in Argentina, Chile, Colombia and Uruguay, US\$ 1.2 billion in Canada and the United States and US\$ 35 million in Spain.

LOW INDEBTEDNESS

Net debt is currently 0.4 times EBITDA, well below the limit of 2.5 established as the Group's policy. In addition, the average maturity of long-term debt was extended from four to nine years.

As a result, we have achieved greater flexibility to take on new steelmaking assets and expand our current industrial plants in the future. It is important to note that we seek a minimum annual return on investment of 15%, a target we have exceeded many times.

CORPORATE GOVERNANCE: NEW EXECUTIVE COMMITTEE PRESIDENT IN 2007

The succession process in the Gerdau Group Corporate Executive Committee continued in 2005. At the beginning of 2007, I will leave the position of Executive Committee President, remaining as Chairman of the Board of Directors. The senior vice presidents Frederico Gerdau Johannpeter and Carlos J. Petry will also serve solely on the Board.

This process is being carried out in an organized and structured manner, following strictly professional criteria, aiming for long-term business sustainability. The new Executive Committee President will be elected by the Board following technical evaluation processes.

The succession process began in 2001 and relies on the assistance of international consultants as well as internal analyses. It is important to stress that the Gerdau Group has already successfully carried out four succession processes throughout its more than 100 years of history.

RESPONSIBILITY WITH ALL OUR PUBLICS

Increasingly, our work integrates the economic, social and environmental spheres, based on the concept of sustainability. We offer increasing dividends and seek to raise share liquidity by means of updating our corporate governance practices and listing companies in important world financial centers. In this fiscal year, shareholders in the listed companies in Brazil received R\$ 364.1 million from Metalúrgica Gerdau S.A. and R\$ 796.4 million from Gerdau S.A. Gerdau Ameristeel, the company responsible for the Group's operations in Canada and the United States, paid out a total of US\$ 66.9 million in 2005.

In addition, we are making ongoing investments in training employees at all levels. In 2005, a total of R\$ 32.9 million was allocated for professional development, giving an annual average of two weeks' training per employee. Workplace safety also deserves attention: we reached a rate of just 3.9 accidents with loss of work time per million hours worked, a reduction of 4.9% on the 2004 figure. Our challenge, however, is to have an entirely accident free workplace.

In the environmental area, we invested R\$ 186.6 million in 2005, up 164.9% on the previous period. Our goal is to achieve ISO 14001 environmental certification for all of our industrial facilities. We also aim to reduce the environmental impact of our operations, mainly by developing new uses for by-products either in the steelmaking sector itself, or in other sectors of the economy. Currently, 80% of the by-products from our steelmaking processes are reused in some way.

We also fulfill a fundamental role in society by recycling around 10 million metric tons of scrap per year, one of the main raw materials for Gerdau steel. This reduces the quantity of material sent to landfills and generates scrap collection jobs, through an extensive network of small and medium-sized entrepreneurs.

Our work with the communities takes place in two main areas: education and volunteer work. In the educational field, we seek to improve the standard of teaching, especially in primary schooling in Brazil, by means of partnerships with public bodies and NGOs. For the Gerdau Group, education is not limited to school and university desks. It takes in a broader vision, including education for entrepreneurship, for scientific research, for total quality, for environmental conservation and for culture.

We also offer aid to communities hit by natural disasters, such as hurricane Katrina in the United States, and help fight social problems, such as hunger in Brazil. The participation of our volunteers has been fundamental in many acts of solidarity. In 2006, a new project – the Gerdau Volunteer Program – will be implemented to consolidate all the volunteer activities promoted by the Group, first in Brazil and then in the operations abroad.

THE FUTURE: CONFIDENCE IN CONTINUED GROWTH

In the coming years, we will continue to participate in the consolidation of the steel sector through acquisitions and mergers. In long steel, our focus will remain in the Americas; in long specialty steel, the world.

MANY THANKS

I would like to express my gratitude for the dedication and diligence of our employees. I would also like to offer my deepest thanks to all who have been part of our development: our shareholders, our investors, our suppliers, our communities and especially our customers.



Jorge Gerdau Johannpeter
Chairman