

RISK MANAGEMENT

The Gerdau Group is exposed to risks inherent to its operations and to the markets where it operates. The process of Integrated Risk Management (IRM) is one of Gerdau's corporate governance tools focused on improving the structure of internal controls.

The IRM has the role of implementing the systematic evaluation and monitoring of risks and internal controls in the processes, on the basis of an internationally recognized methodology.

The process meets the standards of the United States Sarbanes-Oxley Act, which seeks to increase transparency and commitment in relation to internal controls and disclosed information. All companies with shares traded on American stock exchanges must adhere to this legislation. With the IRM, Gerdau S.A. and Gerdau Ameristeel now meet these new legal requirements, as regulated by the Securities and Exchange Commission (SEC), the chief regulatory body of the United States stock market.

INDUSTRIAL RISKS

The Gerdau Group produces steel with calculated industrial risks. This means that the potential risks in a steel mill or downstream operation are known and dealt with so as to prevent their occurrence. Internal and external audits are carried out regularly so as to ensure the safety of people, our first priority in all facilities.

In order to achieve its zero-accident goal, the company has adopted the Total Workplace Safety System, consisting of a series of rigorous procedures, training activities and prevention programs, in addition to modern operating technology (see People and Teams).

The main operating risks are frequently related to the high temperatures involved in the production processes.

In terms of the use of scrap, an important raw material, the Gerdau Group uses advanced equipment to detect radioactivity, preventing contaminated materials from being included in the metal charged to electric arc furnaces.

In relation to the use of energy inputs, high voltage electricity also requires rigorous protective procedures.

ENVIRONMENTAL RISKS

The Environmental Management System (EMS) consists of a set of preventive and proactive actions that guarantee the excellence of the Group's environmental protection practices. It involves the evaluation of industrial activities, from input collection to steel distribution, with the aim of continuing to reduce the company's impact on the environment (see Environmental Management).

The Gerdau Group also adapts itself to the changing demands of local environmental legislation and of communities.

FINANCIAL RISKS

The Gerdau Group uses tools to protect itself against fluctuations in interest rates, exchange rates and raw material prices, based on conservative forecasts. In this area, the company has a policy of negotiating high liquidity contracts on the futures and derivatives markets. These

instruments are registered according to the Financial Accounting Standards Board (FASB) statement 133 (US GAAP).

As part of its growth strategy, the Gerdau Group has also established a natural hedge by obtaining revenues in strong currencies. This stems mainly from the significant cash generation resulting from steel production in the United States and Canada and from Brazilian exports. As of 2006, revenues will also be generated in Euros, as a result of the acquisition of a shareholding stake in Spain.

RISKS OF VARIATION IN PRICES OF RAW MATERIALS

Exposure to variations in the prices of raw materials is managed through medium and long-term supply contracts.

In highly fragmented sectors, the Gerdau Group anticipates or postpones purchases in order to obtain the most favorable prices, by means of building inventories in areas such as scrap.

The purchase of certain inputs, such as electricity, coal and iron ore, provides for the annual value revision of supply contracts.

INSURANCE

The Gerdau Group takes out insurance with the aim of covering risks to assets, loss of profits and civil liability, in line with the risk involved in each business.

» Additional information available at www.gerdau.com.br/eng/corporategov