OFFERING MEMORANDUM

GTL TRADE FINANCE INC.
(Incorporated with limited liability in the British Virgin Islands)

US$500,000,000 7.25% Bonds Due 2017
Unconditionally and irrevocably guaranteed by
Gerdau S.A.
Gerdau Açominas S.A.
Gerdau Aços Longos S.A.
Gerdau Aços Especiais S.A.
Gerdau Comercial de Aços S.A.

GERDAU

Interest payable on April 20 and October 20

Issue Price: 102.5654%, plus accrued interest

GTL Trade Finance Inc., or the Issuer, is offering US$500,000,000 aggregate principal amount of its 7.25% guaranteed bonds, or the bonds. The bonds will initially be sold to investors at a price equal to 102.5654% of the principal amount thereof, plus accrued interest, totaling US$2,315,972.22 (or US$4.63 per US$1,000 principal amount of bonds offered hereby), from April 20, 2008 to, but not including, May 13, 2008, the date the Issuer expects to deliver the bonds, and additional interest, if any, from May 13, 2008. Interest on the bonds will accrue at a rate of 7.25% per year and will be payable semi-annually in arrears on April 20 and October 20 of each year, commencing on October 20, 2008.

The bonds offered hereby constitute a further issuance of, and will be consolidated to form a single series with, the Issuer's US$1,000,000,000 outstanding 7.25% bonds due 2017 issued on October 22, 2007 (the "existing bonds"). The bonds sold pursuant to Rule 144A under the Securities Act of 1933, as amended, will be fungible with the existing bonds held in the Restricted Global Bond (as defined herein) from the closing date. After the 40th day following the date of delivery of the bonds, the bonds sold pursuant to Regulation S will be fungible with existing bonds currently held through the Regulation S Global Bond (as defined herein). During such 40-day period, bonds sold pursuant to Regulation S will have temporary CUSIP numbers, ISIN and common codes. Together with the outstanding existing bonds, the total principal amount of the series of bonds will be US$1,500,000,000.

The bonds will mature on October 20, 2017. The Issuer may, at its option, redeem the bonds, in whole but not in part, at 100% of their principal amount plus accrued interest at any time upon the occurrence of specified events relating to applicable tax law, as described under "Description of the Bonds—Early Redemption." The bonds will also be repayable prior to maturity thereof upon the occurrence of a change of control as described herein. See "Description of the Bonds–Covenants–Repurchase of Bonds upon a Change of Control."

The bonds will be unconditionally and irrevocably, jointly and severally, guaranteed by Gerdau S.A., or the Company, and its majority-owned Brazilian subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A., or, collectively, the Guarantors.

The bonds will be senior unsecured obligations of the Issuer, ranking equal in right of payment with all of the Issuer's other existing and future senior unsecured debt. The guarantees of the bonds will rank *pari passu* with all unsecured and unsubordinated obligations of each of the Guarantors.

The existing bonds are currently listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market. See "Listing and General Information." This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on prospectuses for securities.

Investing in the bonds involves risks. See "Risk Factors" beginning on page 16 for a discussion of certain information that you should consider before investing in the bonds.

The bonds and the guarantees of the bonds have not been and will not be registered under the Securities Act of 1933, as amended, or the Securities Act, or under any state securities laws. Therefore, the bonds may not be offered or sold within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, the bonds are being offered and sold (1) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) to non-U.S. persons in compliance with Regulation S under the Securities Act. See "Notice to Investors" for additional information about eligible offerees and transfer restrictions. To the extent that the offering of the bonds is made to persons within the European Economic Area, it shall exclusively be made to "qualified investors" within the meaning of EU Directive 2003/71/EC, or the Prospectus Directive, and therefore is exempt from the requirement to publish a compliant prospectus under the Prospectus Directive.

The bonds were delivered to purchasers in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on May 13, 2008.

Joint Bookrunners and Lead Managers

ABN AMRO Incorporated **HSBC** **JPMorgan**

June 10, 2008

You should rely only on the information contained in this offering memorandum. Neither the Company nor the Issuer has authorized anyone to provide you with different information. The initial purchasers are not and the Company and the Issuer are not making any offer of the bonds in any jurisdiction where such offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the cover of this offering memorandum regardless of the time of delivery of this offering memorandum or of any sale of the bonds.

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to (i) “Issuer” refer to GTL Trade Finance Inc., a company incorporated with limited liability in the British Virgin Islands, or “BVI”, (ii) “Gerdau”, “the Company” or similar terms refer to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil, or Brazil, and its consolidated subsidiaries, (iii) “Açominas” refer to Aço Minas Gerais S.A. – Açominas prior to November 2003, whose business was to operate the Ouro Branco steel mill until November 2003, when the same company underwent a corporate reorganization, receiving all of the Company's Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A., (iv) “Gerdau Açominas” refers to Gerdau Açominas S.A. after November 2003 and to Açominas before such date; (v) the

“Guarantors” refer to Gerdau S.A., Gerdau Açominas S.A. after the restructuring effected on July 29, 2005, Gerdau Aços Longos S.A., or Gerdau Aços Longos, Gerdau Aços Especiais S.A., or Gerdau Aços Especiais and Gerdau Comercial de Aços S.A., or Comercial Gerdau and (vi) “Gerdau Ameristeel” refer to Gerdau Ameristeel Corp., a corporation organized under the laws of the Province of Ontario, Canada, and a majority-owned subsidiary of Gerdau.

The Company and the Issuer are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing bonds, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under “Notice to Investors” in this offering memorandum.

You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

In the U.S. the Company and the Issuer have submitted this offering memorandum to a limited number of investors so that they can consider investing in the bonds as permitted by Rule 144A under the Securities Act. This offering memorandum may only be used for the purpose for which it was published. The Company and the Issuer have not authorized its use for any other purpose in the U.S. or elsewhere. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions, as well as the acknowledgements, representations, warranties and agreements described under “Notice to Investors.”

The Company and the Issuer, having made all reasonable inquiries, confirm that the information contained in this offering memorandum with regard to the Issuer, the Company and the other Guarantors is true and accurate in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Company and the Issuer accept responsibility accordingly.

The Company makes statements in this offering memorandum about its competitive position and market share in, and the market size of, the steel industry. These statements are based on statistics and other information from third-party sources that the Company believes are reliable. The Company derived this third-party information principally from reports published by the International Iron and Steel Institute, or IISI, Brazilian Steel Institute – Instituto Brasileiro de Siderurgia, or the IBS, American Iron and Steel Institute, or AISI, and the Commodities Research Unit, or the CRU, among others. Although the Company has no reason to believe that any of this information or these reports are inaccurate in any material respect, the Company has not independently verified the competitive position, market share, market size or market growth data provided by third parties or by industry or general publications.

In making an investment decision, you must rely on your own examination of the Company and the terms of the offering and the bonds, including the merits and risks involved.

In connection with this offering, the initial purchasers may over-allot bonds or effect transactions with a view to supporting the market price of the bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers will undertake stabilization action at all. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the bonds is made and, if begun, may be discontinued at any time, but it must end no later than the earlier of 30 days after the issue date of the bonds and 60 days after the date of the allotment of the bonds.

The initial purchasers assume no responsibility for, and make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers accept no responsibility in relation to the information contained in this offering memorandum or any other information provided by the Company, the Issuer or any of the Guarantors in connection with the bonds.

No representation is being made to any purchaser of the bonds regarding the legality of an investment in the bonds by such purchaser under any investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding an investment in the bonds.

Neither the U.S. Securities and Exchange Commission, or the SEC, nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

With respect to the United Kingdom, this document is only being distributed to, and is only directed at, (1) persons who are outside the United Kingdom, (2) investment professionals falling within Article 19(5) of the Financial Services and Market Act 2000 (Financial Promotion) Order 2005, or the Order, (3) high net worth entities, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order, and (4) other persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Market Act 2000) in connection with the issue or sale of the bonds may lawfully be communicated or caused to be communicated, (all such persons together being referred to as relevant persons). The bonds are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such bonds will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. See “Plan of Distribution.”

The bonds are subject to restrictions on resale and transfer as described under “Notice to Investors.” By purchasing bonds, purchasers will be deemed to have represented, acknowledged and agreed to all the provisions contained in that section of this offering memorandum. Purchasers may be required to bear the financial risks of investing in the bonds for an indefinite period of time.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

The Company's consolidated financial statements as of December 31, 2006, and for the years ended December 31, 2006 and 2005, included in this offering memorandum have been audited by PricewaterhouseCoopers Auditores Independentes, independent accountants as stated in their report appearing herein. The consolidated financial statements of the Company as of December 31, 2007 and for the year ended December 31, 2007, included in this offering memorandum, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent accountants, as stated in their report appearing herein. The consolidated financial statements of Chaparral Steel Company as of May 31, 2007 and 2006 and for each of the three years ended May 31, 2007 included in the Company's Form 6-K dated April 11, 2008, and incorporated by reference in this offering memorandum have been audited by Ernst & Young LLP, independent registered public accountants, as set forth in their report included therein and incorporated herein by reference.

As described more fully in Note 2.5 to the Company's audited consolidated financial statements as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005, the U.S. dollar amounts have been translated following the criteria established in Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," from the financial statements expressed in the local currency of the countries where the Company and each of its subsidiaries operate.

Gerdau's subsidiaries' operations are located in Argentina, Brazil, Canada, Chile, Colombia, Peru, Spain, Uruguay, the United States and more recently in Mexico, the Dominican Republic, India and Venezuela. The local currency of those subsidiaries located outside of Brazil is the functional currency for those operations. Its subsidiaries' financial statements, except for those of the subsidiaries located in the United States, which already prepare their financial statements in U.S. dollars, are translated from their respective functional currency into U.S. dollars. Assets and liabilities are translated at the exchange rate in effect at the end of each year. Average exchange rates are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in "Cumulative other comprehensive loss" within shareholders' equity. Gains and losses on foreign-currency denominated transactions are included in the consolidated statement of income. The Company's acquisitions completed in 2007 are reflected in the consolidated financial statements as from the respective date of acquisition. See also the section titled, "Unaudited Pro Forma Financial Information."

All references in this offering memorandum to "*real*," "*reais*" or "R$" are to the currency of Brazil. All references in this offering memorandum to "U.S. dollars," "dollars" or "US$" are to the currency of the United States of America.

Installed Capacity and Sales Volume

As used in this offering memorandum:

- "installed capacity" means the annual projected capacity for a particular facility (excluding the portion that is not attributable to the Company's participation in a facility owned by a joint venture), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

- "tonne" means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds; and

- "consolidated shipments" means the combined volumes shipped from all the Company's operations in Brazil, Latin America, North America and Europe, excluding the Company's joint ventures.

Rounding

The Company has made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE

To comply with Rule 144A under the Securities Act in connection with resale of the bonds, the Issuer is required to furnish, upon request of a holder of a bond (each, a "holder") or a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of such request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer does not currently intend to request an exemption from the reporting requirements of the Exchange Act as provided by Rule 12g3-2(b) thereunder. The Company will agree to furnish the information necessary in order to permit the compliance by the Issuer with the information delivery requirements under Rule 144A(d)(4) under the Securities Act

Each of Gerdau S.A. and Gerdau Ameristeel Corporation is a reporting company subject to the informational requirements of the Exchange Act and, in accordance therewith, files reports and other information with the SEC. As foreign private issuers, Gerdau S.A. and Gerdau Ameristeel are exempt from the Exchange Act rules regarding the provision and control of proxy statements and regarding short-swing profit reporting and liability. Under a multi-jurisdictional disclosure system adopted by the U.S. and Canada, Gerdau Ameristeel may generally prepare these reports and other information in accordance with the disclosure requirements of Canada, which are different from those of the U.S. Such reports and other information can be inspected and copied at the public references facilities of the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Gerdau S.A. and Gerdau Ameristeel file materials with, and furnish material to, the SEC electronically using the EDGAR System. The SEC maintains an Internet site that contains these materials at www.sec.gov. In addition, such reports, proxy statements and other information concerning Gerdau S.A. can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which equity securities of Gerdau S.A. are listed.

The Company's Annual Report on Form 20-F for the year ended December 31, 2007 was filed with the SEC on April 11, 2008, and Gerdau Ameristeel's Annual Report on Form 40-F for the year ended December 31, 2007 was filed with the SEC on March 25, 2008. However, those Annual Reports are not incorporated by reference herein and should not be considered a part of this offering memorandum.

Since September 2007 the Company has begun preparing and publishing financial results in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IFRS. The Company believes that publishing its financial results in accordance with IFRS will allow for investors and other market participants to make meaningful comparisons of the Company's results with those of other major steel producers worldwide and intends that investors, including investors in its international placed debt securities such as the Bonds being offered hereby, to consider the Company's IFRS financial statements in making investment decisions going forward.

The Company is incorporating by reference herein information that it subsequently files with or furnishes to the SEC, which means that it is disclosing important information to you in those documents.

The information incorporated that it subsequently files with the SEC will automatically update and supersede information in this offering memorandum and in the Company's other reports with the SEC. The Company is incorporating by reference its report on Form 6-K filed with the SEC on April 11, 2008 containing financial information for Chaparral Steel as of May 31, 2007 and 2006 and for each of the three years ended May 31, 2007, which the Company has already filed with or furnished to the SEC, the Company's financial statements for the quarter ended March 31, 2008, prepared in accordance with IFRS, which are expected to be filed with, or made available at, www.cvm.gov.br on or about May 12, 2008 and are expected to be filed with the SEC shortly thereafter, and any future filings the Company makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the completion of the distribution of the bonds.

Any statement contained in this offering memorandum, or in a document all or a portion of which is incorporated by reference in this offering memorandum, will be deemed to be modified or superseded for purposes of this offering memorandum to the extent that a statement contained in this offering memorandum modifies or supercedes the statement. Any such statement or document so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this offering memorandum.

You may request a copy of these filings, at no cost, by contacting Gerdau at its principal executive office.

Gerdau's principal executive office, as well as that for the other Guarantors, is at Av. Farrapos 1811, CEP 90220-005, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number at this address is (+55-51) 3323-2000.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to the Company's future prospects, developments and business strategies.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions are forward-looking statements. Although the Company believes that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to the Company.

It is possible that the Company's future performance may differ materially from its current assessments due to a number of factors, including the following:

- general economic, political and business conditions in the Company's markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *reais* in relation to the U.S. dollar and other currencies in which the Company sells a significant portion of its products or in which its assets and liabilities are denominated;
- the Company's ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;
- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under "Risk Factors."

The Company's forward-looking statements are not guarantees of future performance, and actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the bonds. You should carefully read this entire offering memorandum before investing, including "Risk Factors" and the Company's consolidated financial statements. See "Selected Financial and Other Information of Gerdau" for information regarding the Company's consolidated financial statements, the applicable exchange rates, definitions of technical terms and other introductory matters.

Gerdau

Overview

According to the IBS, the Company is Brazil's largest producer of long rolled steel and, according to AISI estimates, the second largest producer in North America based on volume produced. Gerdau has a significant market share of the steel industry in almost all the countries where it operates and has been classified by IISI as the 14th largest steel producer in the world based on its consolidated production of crude steel in 2006.

Gerdau operates steel mills that produce steel by direct iron-ore reduction, or DRI, in blast furnaces, or via electric arc furnaces, or EAF. In Brazil it operates three blast furnace-operated steel mills including its largest mill, Gerdau Açominas, an integrated steel mill located in Ouro Branco in the state of Minas Gerais. The Company currently operates a total of 43 steel producing units in Latin America (including Brazil) and North America, as well as a consolidated subsidiary in Spain, Corporación Sídenor, for the production of special steel, and two associated companies: one in the Dominican Republic and another in Mexico. Gerdau also participates in two joint ventures: one in the U.S. for the production of flat rolled steel and another recently formed venture in India. During the fiscal year ended December 31, 2007, approximately 41.0% of all its sales volume was generated from operations in Brazil, 40.5% from operations in the U.S. and Canada, 13.1% from Latin American operations (excluding Brazil) and 5.4% from European operations.

As of December 31, 2007, total consolidated installed capacity, excluding the Company's investments in joint ventures and associated, unconsolidated companies, was 24.8 million tonnes of crude steel and 21.0 million tonnes of rolled steel products. For the fiscal year ended December 31, 2007, the Company had total consolidated assets of US$22.97 billion, consolidated net sales of US$15.81 billion, total consolidated net income of US$1.62 billion and a shareholders' equity of US$7.00 billion.

Gerdau offers a wide array of steel products, manufactured according to an extensive variety of customer specifications. Its product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry, such as rods and structural bars, finished products for industry such as commercial rolled steel bars and machine wire and products for farming and agriculture, such as poles, smooth wire and barbed wire. Gerdau also produces specialty steel products utilizing advanced technology and normally with a certain degree of customization, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant and increasing portion of Gerdau's steel production assets are located outside Brazil, particularly in the U.S. and Canada, as well as in Latin America and Europe. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 18 steel production units in the U.S. and Canada through its principal entity, Gerdau Ameristeel, and believes that it is one of the market leaders in North America in terms of production of some long steel products, such as rods, commercial rolled steel bars, extruded products and girders.

The Company's operating strategy is based on the acquisition or construction of steel mills close to its customers and the sources of raw materials required for steel production such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it produces. However in recent years, especially after acquiring the Ouro Branco plant, the Company has expanded its exposure to the international markets and taken advantage of increased international demand and higher steel prices outside Brazil. The Company has a diversified list of international customers and its main export destinations include the U.S., Taiwan, South Korea, Thailand and Latin American countries such as Argentina, the Dominican Republic and Ecuador.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including reforestation and electric power generation projects.

Business Strategy

The Company's objective is to produce high-quality steel products and by-products competitively, meeting the needs of its customers and the objectives of its stockholders and maintaining a position of prominence in the domestic and international steel markets. The Company intends to achieve that objective by adopting the following strategies:

Increasing presence in the global markets by means of acquisitions and organic growth

The Company intends to follow the global consolidation trend through acquisitions and organic growth. The Company's international growth strategy is based principally on the acquisition of steel mills whose profitability the Company believes it can increase in the short term, through the Company's management experience, without the need for significant capital investments. In the Americas, the Company's acquisition strategy is focused primarily on long steel products, whereas in Europe and Asia the focus has been on specialty steel products. In the past three years ending on December 31, 2007, the Company has made 17 acquisitions, including Chaparral Steel in the U.S. (installed capacity of 2.5 million tonnes), Corporación Sídenor and GSB Aceros in Spain (installed capacity of 1.1 million tonnes), Siderperu in Peru (installed capacity of 540,000 tonnes) and the Feld Group in México (installed capacity of 350,000 tonnes).

The Company also intends to continue expanding its operations organically by increasing its capacity, as well as through production optimization projects. For example, the Company recently completed the process of building a second blast furnace adjacent to the existing integrated steel production installations at its Ouro Branco steel mill and installing a second continuous ingot caster at the same unit, resulting in a capacity increase in Brazil of approximately 15.0%, to 11.4 million tonnes of crude steel per year. In the U.S. the Company installed a new steel mill in Jacksonville, Florida, raising its production of crude steel in North America to 10.0 million tonnes per year.

At the same time that the Company intends to continue expanding its operations through acquisitions and organic growth, it will seek to maintain its credit rating with the principal international rating agencies.

Continue maximizing proximity to the Company's customers through decentralized production

The majority of the Company's steel mills are sized and located to meet the principal needs of the local markets, providing effective access to customers and raw materials. This strategy was developed in response to the geographic size of Brazil, the U.S. and Canada, and the high transportation and freight costs in each of these markets. The Company services its customers and obtains raw materials locally, thereby reducing transportation costs and enabling the Company to deliver quality products to its customers at competitive prices. The Company's geographic presence also allows the Company to have closer relations with its customers, adapting production to their needs.

Maintain different sources of raw materials and achieve a high degree of vertical integration in supply of iron ore

The Company seeks to reduce its dependency on its suppliers and reduce the possible negative impacts of temporary shortages of specific raw materials. To do so, the Company has established commercial relations with more than 7,000 suppliers of scrap metal throughout the world and with various suppliers of pig iron, iron ore and, to a lesser degree, coke-producing charcoal and other raw materials.

In addition, the Company has approximately 1.8 billion tonnes of ore reserves. Approximately 30.0% of the ore consumed by Gerdau Açominas comes from its mineral reserves and the remaining 70.0% is acquired from mines in the region. By the end of 2009, the Company intends to supply 45.0% of its core iron ore needs. In 2010, the Company expects its mines to provide 80.0% of the ore utilized by its units in Brazil. The Company believes that by diversifying the production processes it will reduce its exposure to raw material shortages.

Expand mix of products and increase market share of value-added products

The three main product or industrial markets in which the Company operates are civil construction, industry and agriculture. To serve their needs, the Company offers a wide array of products, such as crude steel (slabs, blooms and billets) for rolling mills; finished products for construction, such as structural extrusions and bars; commercial rolled bars and machine wire for industrial use and products for farming and agriculture, such as poles, nails, smooth wire and barbed wire. The Company also produces specialty steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

The Company intends to increase its market share of value-added products in such a way as to directly meet the specific needs of its customers and, consequently, capture the higher prices paid for these products.

In addition, the Company adds value to its products through steel-cutting and shaping units, and downstream operations, such as epoxy coating and production of products with specialty sections, wire and nails, cold-drawn products, elevator guide rails and super-light profiles.

Finally, the Company intends to expand its portfolio of products manufactured by the Company in Brazil, so as to operate in all segments, including flat steel.

Maintain focus on technology and efficient operations

In the past three years, the Company invested US$3.3 billion in machinery and equipment, mainly to upgrade its mills, production processes and technologies in acquired companies. It is the Company's belief that dedication to these production processes and state of the art technology will enable the Company to maintain its efficiency and deliver its products according to the needs of its customers. In addition, it is continuously seeking ways to improve the efficiency of its production processes by, among other things:

- utilizing proven quality-control management systems, including a proprietary management system that supports the Company's operations and integrates acquired mills with internationally recognized techniques and processes and ISO 14,001 processes;
- reducing production costs by implementing efficient control procedures, using less expensive raw materials and fuels and adopting new process technologies;
- reducing energy consumption, with an emphasis on the use of more energy-efficient processes such as reutilizing in-plant generated energy in the Ouro Branco steel mill and adopting new process technologies, and;
- reducing inventory levels, in order to decrease its working-capital requirements.

Competitive Strengths

Low-cost production of long steel products in Brazil

The Company continuously invests in new technology and looks for ways to increase the productivity of its installations so that it can compete more efficiently in the markets where it operates. Its mini-mills offer a flexible cost structure that enables the Company to mitigate reductions in its profit margins, as compared to blast furnace steel mills, whose fixed costs are significantly higher than those of the mini mills. In relation to integrated installations, the costs of the Company's steel mill in Ouro Branco are lower since it is located in a region in the state of Minas Gerais which is rich in iron ore reserves. Raw materials are delivered to this mill from distances of less than 50 km, which keeps the Company's transportation costs lower than those of its competitors. The Company's suppliers are mainly small mines that sell iron ore at lower average prices than their competitors which are engaged in the export business. Other factors that contribute to the Ouro Branco steel mill's lower production costs are its ability to produce its own coke from various types of coal supplied by the U.S., Canada and Australia, and its ability to supply part of its iron ore needs from mines owned by the Company with proven reserves of 1.8 billion tonnes, according to the Company's internal estimates.

Diversified geographic location of production and distribution of steel

The Company's installations are strategically located close to its customers and the main sources of its raw material. Through the Company's network of 39 mini mills located in Brazil and abroad, especially in the U.S. and Canada, the Company is able to efficiently serve its customers over a wide geographic area of the international steel market. Comercial Gerdau, which is the Company's major distribution channel, operates 68 retail facilities throughout Brazil as well as, 14 fabricated reinforcing steel facilities and four flat-steel service centers, which enabled it to provide services to approximately 150,000 customers in 2007. Another important distribution channel in Brazil is the Company's network of approximately 21,000 distributors to whom the Company sells its products, offering extensive domestic coverage. In the U.S. and Canada, the 18 steel production units are located mostly in the mid-west and in the eastern portion of the continent, regions with a higher concentration of industrial activity and greater availability of raw materials; the Company's 49 cutting and shaping units and 11 downstream operations are scattered throughout the U.S., enabling the Company to provide extensive territorial coverage and to be located close to its principal customers. In Chile, the Company has five distribution units under the name Salomon Sack. In addition, Gerdau AZA also sells its products through Aceros Cox in Chile. In Argentina, the Company has a distribution unit known as Siderco.

Ability to respond to lower domestic demand

The Company seeks to offset any lower domestic demand by distributing its steel products to various overseas markets that generally have greater demand, better prices and, consequently, higher profit margins. In the past three years, the Company exported products from Brazil to customers in other continents with whom the Company has long-established commercial relations. In 2007, the Company's exports represented 30.6% of all sales volume by its Brazilian units as compared to 36.2% in 2006, due to an increase in domestic market activity in 2007.

Diversification of production processes and the wide variety of suppliers

The Company has invested in a diversified platform of production processes, including electric arc furnaces, blast furnaces and the direct iron-ore reduction process. At the same time the Company has sought to minimize its dependence on certain raw material suppliers.

In Brazil, the Company operates three steel mills operating with blast furnaces, including the Ouro Branco mill in the state of Minas Gerais, with an installed capacity of 4.5 million tonnes. The Company also operates a network of seven mini-mills in Brazil utilizing electric arc furnaces and an integrated mill that uses the direct iron-ore reduction process. Outside Brazil, the Company operates a blast furnace mill in Peru and mills abroad that produce steel using electric arc furnaces.

The primary raw materials for electric arc furnace steel production are scrap metal and pig iron, whereas blast furnace technology utilizes iron ore, sinter feed (a mixture of iron ore and limestone), ferroalloy and coking coal from coal or charcoal. The direct iron-ore reduction process uses iron ore and natural gas to produce sponge iron utilized in the electric arc furnace steel production.

The Company operates with over 7,000 suppliers of scrap metal throughout the world and has contracts with various suppliers of pig iron, iron ore and, to a lesser degree, coking coal. The Company believes that, in addition to its iron ore mines, with approximately 1.8 billion tonnes of measured, indicated and inferred reserves, this strategy reduces dependency on specific suppliers and diminishes possible negative effects on its business in periods of crisis in the supply of raw material. The Company also believes that diversification of production processes reduces the risks of shutdowns during periods when raw materials are scarce and demand is low.

Vertical integration in the steel market

The Company operates in the three segments of the steel production market, as follows:

- production and supply of raw materials for utilization of its steel production process;
- production of finished and semi-finished steel products; and
- distribution of its steel products and those of other companies.

The Company believes that it is one of the major buyers of scrap metal in Brazil and North America. In addition, the Company owns four areas of iron ore reserves, two installations for the production of pig iron and two port terminals in Brazil.

On December 31, 2007, the Company's total installed capacity for finished and semi-finished steel products was 24.8 million tonnes, distributed throughout its 43 steel production units in Latin America (including Brazil) and North America, as well as at a consolidated subsidiary in Spain, Corporación Sídenor, for the production of specialty steel, and two associated companies, one in the Dominican Republic (a recently acquired mini mill) and another in Mexico.

Through its subsidiary, Comercial Gerdau, the Company has what it believes is the largest distribution network for steel products in Brazil, with 68 retail facilities throughout the entire country. In addition to distribution of the Company's own steel products, it also distributes flat steel produced by competitors' mills in order to meet its customers' needs, offering a full line of steel products throughout Brazil. Through its four service centers, Comercial Gerdau also offers oxy-cut (a heat based large scale cutting process) and laser-cut (a laser based procedure for accurately cutting complex outlines in sheet metal) service. Outside Brazil, Gerdau operates via direct distribution from its steel units, downstream operations and distribution units, utilizing models that the Company believes are the best fit for each region.

High-quality management

Gerdau has a growth-oriented senior-management team with significant experience in the steel industry. Management's extensive experience has been essential for the Company's growth and provides a solid base on which to expand its operations. This experience has enabled management to generally transform acquired companies into profitable operations within a relatively short period of time.

The Company believes that its employees are its most valuable resource and are largely responsible for maintaining its competitive advantage. The Company has implemented a business system that identifies global industry benchmarks for the principal operational and safety measures. This system includes training and safety programs and performance-based incentives developed to increase employee performance and motivation.

Financial Strength

In recent years, the Company developed and improved its relationships with the major financial institutions operating in the Brazilian and international capital markets in an effort to obtain financial resources in various forms to finance its development. The Company uses a wide range of financing tools, including bank loans, supplier financing, bonds and commercial paper and the Company has access to a broad range of financing options principally due to its financial condition. In addition, the Company has served its financing needs in recent years through internal funding alternatives, such as internal cash generation and share capital increases.

Gerdau S.A. has been a listed company in Brazil since 1980, with an ADR listing on the New York Stock Exchange (NYSE) since March 1999. In June 2001, Gerdau joined the São Paulo Stock Exchange's Corporate

Governance Program (Level 1). In December 2002, it listed on the Latibex, a section of the Madrid Stock Exchange dedicated to Latin American companies with shares trading in Euros. Gerdau Ameristeel is listed in Canada on the Toronto Stock Exchange and, more recently, began trading on the New York Stock Exchange as well.

Recent Acquisitions

On January 14, 2008, the Company purchased, through its subsidiary Gerdau GTL Spain, for US$107.2 million, approximately 40.2% of Diaco's capital of minority shareholders. As a result of the purchase, the Company now indirectly owns 97.4% of Diaco's capital stock.

On February 15, 2008, the National Electric Energy Agency, or the ANEEL, transferred to the Gerdau group a concession to generate electricity from the São João – Cachoeirinha hydroelectric complex, composed of two hydroelectric power plants to be built in the State of Paraná. The project will have 105 MW of installed power and construction should be concluded in 2011. The estimated investment is approximately US$173 million. The energy produced will be utilized to power the Company's own units.

On February 21, 2008, the Company signed a purchase and sale agreement for the acquisition of a 50.9% interest in Cleary Holdings Corp., which controls metallurgical coke production units and coke-producing coal reserves in Colombia. The company has a current annual capacity to produce 1.0 million tonnes of metallurgical coke per year and, according to estimates, it has 20 million tonnes in coke producing coal reserves. The amount to be disbursed in this acquisition is US$59 million, but the agreement is still subject to the approval of the Columbian market's regulatory bodies. All of its production is earmarked for exporting, mainly to the U.S., Peru, Canada and Brazil.

On February 27, 2008, the Company announced the conclusion of the acquisition of a 49% interest in Corsa Controladora, S.A. de C.V., with headquarters in Mexico City, Mexico. Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and controls two steel-products distributors. Located in the city of Tlalnepantla, in the metropolitan Mexico City, Açeros Corsa is a mini-mill that produces long steel (light commercial extruded shapes), with annual installed capacity of 150,000 metric tonnes of crude steel and 300,000 metric tonnes of rolled products. A total of US$110.7 million was disbursed in this transaction, after adjustments related to working capital. The Gerdau Group and Corsa Controladora's shareholders also formed a joint venture referred to as Estructurales Corsa S.A.P.I de C.V. with the purpose of implementing a project for the production of structural extruded shapes in Mexico. The capital contributions to the joint venture will be shared equally for a total of US$120 million. The new unit will have an installed capacity of 1.0 million tonnes of crude steel and 700,000 tonnes of rolled steel per year and will involve investments estimated at US$400 million. The new industrial plant will begin operations in 2010.

On April 2, 2008, the Company's subsidiary, Gerdau Ameristeel, announced the acquisition, through the joint venture Pacific Coast Steel (PCS), of Century Steel, Inc., located in Las Vegas, Nevada, which specializes in the manufacturing and installation of structural steel. Gerdau Ameristeel paid US$152 million for all of Century Steel's assets and announced that it will pay US$68 million to raise its equity interest in the PCS Joint Venture to 84%.

On April 16, 2008, the Issuer contracted for a bridge loan with ABN Amro Bank N.V., HSBC Securities (USA) Inc. and J.P. Morgan Securities Inc., in the aggregate amount of US$1.0 billion. The Company, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços are guarantors of this loan. The loan bears interest at a rate of LIBOR + 0.85% per annum and matures within six months of the disbursement of the proceeds.

In addition, also on April 16, 2008, the Company's subsidiary Gerdau US Financing Inc. contracted for a bridge loan with Citigroup Global Markets Inc., in the aggregate amount of US$540.0 million. The Company, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços, Gerdau Delaware, Inc. and Gerdau Macsteel Holdings Inc. are guarantors of this loan. The loan bears interest at a rate of LIBOR + 1.25% per annum and matures within 45 days of the disbursement of the proceeds.

On April 21, 2008, the Gerdau group entered into a strategic partnership with Corporación Centroamericana del Acero, a steel producer located in Central America. As a result of this partnership, the Gerdau group will hold a 30% ownership interest in this company and agreed to invest US$180 million in its operations in Central America.

On April 23, 2008, the Company acquired the MacSteel division of Quanex Corporation. The shareholders of Quanex approved the acquisition at a special shareholders' meeting held on April 22, 2008. The acquisition price was US$1.46 billion. In addition, the Company assumed all debt and certain other liabilities of Quanex. The acquisition is being financed with working capital and short-term financings.

On April 30, 2008 the Company consumated a primary offering of the Company's common and preferred shares (including shares in the form of American Depositary Shares, or ADSs) resulting in net proceeds of approximately US$376.82 million from the sale of ADSs and approximately R$1.99 billion in the sale of common and preferred shares.

Recent Financial Results

The Company expects to announce its results for three months ended March 31, 2008 on May 12, 2008, which results will be released in Portuguese, stated in Brazilian *reais*, and prepared in accordance with IFRS. The Company's IFRS statements will differ from, and will not be comparable with, the U.S. GAAP financial statements appearing elsewhere in this offering memorandum and the U.S. GAAP financial statements for the three months ended March 31, 2008, which are not expected to be available until after the IFRS statements are released, currently expected to be sometime in late May 2008. These IFRS financial statements are expected to be filed with, or made available at, www.cvm.gov.br on or about May 12, 2008 and are hereby incorporated into this offering memorandum. Prospective investors are urged to consult their accounting, financial and other advisors to obtain a fuller description of the principal differences between IFRS and U.S. GAAP.

The Company believes that, when issued, its results for the first three months of 2008 will be consistent with the positive trends experienced by the Company during 2007. Revenues from the Company's principal segments are expected to increase not taking into account the effect of recent acquisitions, including the Company's acquisition of Chaparral Steel in late 2007. Taking into account the Chaparral and other acquisitions, the Company expects to continue to realize the positive effects and expected synergies of these transactions during 2008.

Costs and expenses for the first three months of 2008 are expected to be generally in line with that for prior periods, except for some limited price increases in certain raw materials.

The Company expects to continue to integrate Chaparral and other acquisitions throughout 2008 and to continue, as is the case with MacSteel, to identify and consummate further acquisitions in its principal markets where the Company believes doing so will be accretive to its financial condition and results of operations. Although there can be no assurances at this time as results for the first three months of 2008 are in the process of being finalized, the Company generally expects its overall results of operations and financial condition at March 31, 2008 and through the date hereof will be generally consistent with the positive levels experienced in the comparable period in 2007.

GTL Trade Finance Inc.

GTL Trade Finance Inc. or the "Issuer", is the Company's wholly-owned direct subsidiary. The Issuer was incorporated on October 8, 2002 as an international business company with limited liability under the International Business Companies Act of the British Virgin Islands for the purpose of performing offshore financing activities incidental to the Company's business. On January 1, 2007 the Issuer was automatically re-registered under the BVI Business Companies Act, 2004 of the British Virgin Islands to a BVI Business Company. Such deemed re-registration of the Issuer has no effect on the obligations of the Issuer under the bonds. The Issuer is permitted to incur indebtedness only if it is guaranteed by one or more of the Guarantors. The Guarantors represent more than 75.0% of the Company's net consolidated assets at December 31, 2007 and 75.0% of EBITDA as of such date**.**

The paid-in capital of GTL Trade Finance Inc. as of the date hereof is US$10,000, consisting of 10,000 authorized ordinary shares, with a par value of US$1.00 per share. The registered office of GTL Trade Finance Inc. is c/o ATC Trustees (BVI) Limited, 2nd floor, Abbott Building, Road Town, Tortola, British Virgin Islands.

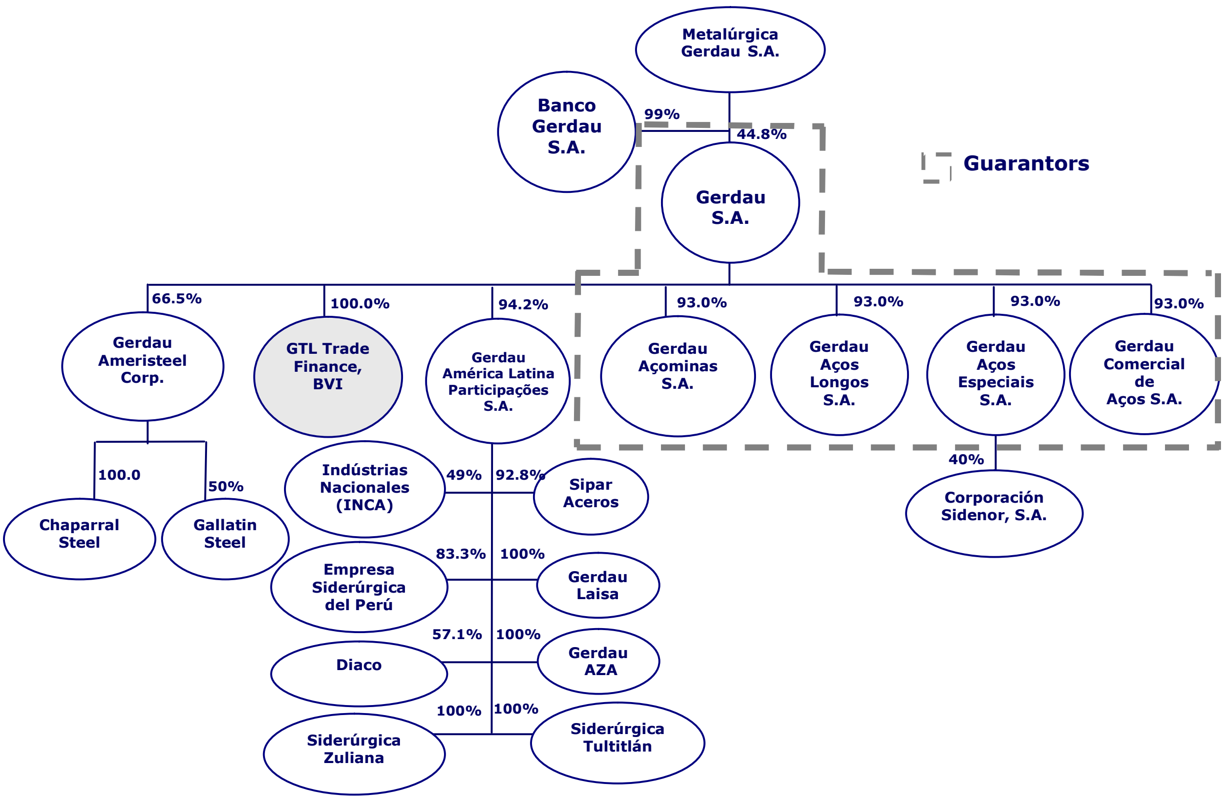
The Company has not included any financial statements for the Issuer in this offering memorandum. The Issuer will not publish financial statements, and is not currently required to publish financial statements under the laws of the British Virgin Islands. If the Issuer is required to publish financial statements in the future, they will be available at the office of the paying agent in Luxembourg. In addition, the Issuer does not intend to furnish to the trustee or the holders of the bonds any financial statements of, or other reports relating to, the Issuer.

The Issuer does not have any convertible debt securities, exchangeable debt securities or debt securities with warrants outstanding, loan capital outstanding, other borrowings or indebtedness or any other contingent liabilities. As a general rule, no account should be taken of liabilities between undertakings with the same group.

The Guarantors

The Issuer's obligations under the bonds will be unconditionally and irrevocably, jointly and severally, guaranteed by the Company and the other Guarantors (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A.), each of which is a majority-owned Brazilian subsidiary of Gerdau.

The following chart summarizes the operational structure of the Company's principal operating subsidiaries engaged in the steel production business, including the Guarantors of the bonds, showing the percentage of each subsidiaries' total capital owned by the Company as of December 31, 2007:



As a result of the Company's corporate reorganization in 2005, its Brazilian operations are conducted primarily by its operating controlled companies Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Commercial Gerdau de Aços.

Gerdau Açominas produces crude steel (slabs, blooms and billets) wire rods and structural shapes. Gerdau Aços Longos produces common long steel and Gerdau Aços Especiais produces specialty long steel. Comercial Gerdau de Aços, which the Company believes is the largest steel products distribution network in Brazil, sells long-steel products produced by the Company and distributes flat-steel products produced by other Brazilian mills.

See "Business of Gerdau" for additional information regarding the Guarantors.

SUMMARY OF THE OFFERING

This summary describes the principal terms of the amended and restated indenture governing the bonds and the guarantees of the bonds. Certain terms described below are subject to important limitations and exceptions. The "Description of the Bonds" section of this offering memorandum contains a more detailed description of the terms and conditions of the bonds and the guarantees of the bonds.

Issuer	GTL Trade Finance Inc., incorporated with limited liability in the British Virgin Islands.
Guarantees	The bonds will be guaranteed on a senior unsecured basis by Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. (collectively, the "Guarantors").
Bonds offered	US$500,000,000 aggregate principal amount of 7.25% bonds due 2017 were issued on May 13, 2008. The bonds offered hereby constitute a further issuance of, and will form a single series with, the Issuer's outstanding US$1,000,000,000 7.25% bonds due 2017 originally issued on October 22, 2007 or the existing bonds. The bonds sold pursuant to Rule 144A under the Securities Act will be fungible with the existing bonds held in the Restricted Global Bond from the Closing Date. After the 40th day following the date of delivery of the bonds, the bonds sold pursuant to Regulation S will be fungible with the existing bonds currently held through the Regulation S Global Bond. During such 40-day period, bonds sold pursuant to Regulation S will have a temporary CUSIP, ISIN and common code.
Interest rate	The bonds will bear interest from April 20, 2008, the last interest payment date of the existing bonds, at the annual rate of 7.25%, payable semi-annually in arrears on each interest payment date.
Interest payment dates	Semi-annually on April 20 and October 20, commencing on October 20, 2008.
Issue price	102.5654% of the principal amount, plus accrued interest, totaling US$2,315,972.22 or US$4.63 per US$1,000 principal amount of bonds offered hereby, from April 20, 2008 (the last interest payment date of the existing bonds) to, but not including, May 13, 2008, the date the Issuer expects to deliver the bonds, and additional interest, if any, from May 13, 2008.
Maturity	October 20, 2017.
Ranking of the bonds and the guarantees	The bonds will be the Issuer's senior unsecured obligations ranking: • at least *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain

statutory preferences under applicable law, including labor and tax claims;

- senior in right of payment to any subordinated debt of the Issuer; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of the Company's subsidiaries that are not Guarantors and to the Company's secured debt and other secured obligations to the extent of such security.

The guarantees will be each Guarantor's senior unsecured obligations ranking:

- *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to any subordinated debt of that Guarantor; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor's subsidiaries and to secured debt and other secured obligations of that Guarantor and its subsidiaries to the extent of such security.

See "Description of the Bonds—Ranking."

Early redemption	The Issuer may, at its option, redeem the bonds, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to applicable tax laws. See "Description of the Bonds—Early Redemption."
Additional amounts..	Payments of principal and interest on the bonds will be made without withholding and deduction for any present or future taxes, except as required by applicable law. The Issuer, in respect of the bonds, and the Guarantors, in respect of the guarantees, will pay such additional amounts as will result in receipt by the holders of bonds of such amounts as would have been received by them had no such withholding or deduction for taxes been required, subject to certain exceptions set forth under "Description of the Bonds—Additional Amounts."
Change of control offer..	Upon the occurrence of a change of control that results in a ratings decline, Gerdau, acting on behalf of the Issuer, will make an offer to purchase all outstanding bonds

	(including all the outstanding existing bonds) at a purchase price equal to 101% of their principal amount plus accrued interest to the date of purchase, as described under "Description of the Bonds–Covenants–Repurchase of Bonds upon a Change of Control."
Use of proceeds	The net proceeds from the sale of the bonds will be used for the Company's general corporate purposes.
Covenants	The amended and restated indenture governing the bonds and the guarantees of the Guarantors will restrict the ability of the Issuer, the Guarantors and their subsidiaries to: • create liens; • enter into transactions with affiliates; and • consolidate with or merge with or into another person or transfer assets to another person. Each of these covenants is subject to exceptions and limitations. See "Description of the Bonds—Covenants."
Events of default	For a discussion of certain events of default that will permit acceleration of the principal of the bonds plus accrued interest. See "Description of the Bonds—Events of Default."
Further issuances	The Issuer may, from time to time, without notice to or consent of the holders of bonds create and issue an unlimited principal amount of additional bonds of the same series as the existing bonds and the bonds issued in this offering.
Form and denomination; settlement	The bonds will be issued in the form of global bonds in fully registered form without interest coupons, as described under "Form of Bonds." The global bonds will be exchangeable or transferable, as the case may be, for definitive certificated bonds in fully registered form without interest coupons only in limited circumstances. The bonds will be issued in registered form in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. See "Description of the Bonds—Form, Denomination and Title" and "Form of Bonds." The bonds will be delivered in book-entry form through the facilities of The Depository Trust Company, or DTC, for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, S.A. Luxembourg, or Clearstream Luxembourg, and will trade in DTC's Same-Day Funds Settlement System.

Notice to investors	The bonds have not been, and will not be, registered under the Securities Act and are subject to limitations on transfers, as described under "Notice to Investors."
Listing	The existing bonds are currently listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market. The Issuer cannot assure you, however, that this application will be accepted, or if accepted, that the bonds will remain so listed. The Directive of the European Parliament and the Council (2003/0045) (COD) (the Transparency Directive) regarding the harmonization of transparency requirements relating to financial information of issuers whose securities are admitted to trading on a regulated market in the European Union, such as the Luxembourg Stock Exchange, is now required to be implemented by the EU member states. The Issuer will at all times use its reasonable efforts to maintain the listing of the bonds on the Luxembourg Stock Exchange.
Governing law	The amended and restated indenture and the bonds will be governed by the laws of the State of New York.
Trustee, principal paying agent, registrar and transfer agent	Citibank, N.A.
Luxembourg listing agent	Dexia Banque Internationale à Luxembourg
Risk Factors	See "Risk Factors" beginning on page 16.

SUMMARY FINANCIAL AND OTHER INFORMATION OF GERDAU

The following table sets forth Gerdau's summary financial information, presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and operating data.

The summary financial information as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 have been derived from and must be read with, the Company's audited consolidated financial statements included elsewhere in this offering memorandum. The summary financial information as of December 31, 2005 has been derived from audited consolidated financial statements of the Company not included in this offering memorandum.

The summary financial information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements included elsewhere in this offering memorandum.

	For the year ended December 31, (in thousands of US$)		
	2007	**2006**	**2005**
Consolidated Statement of Income Data			
Net Sales	15,814,517	11,844,230	8,894,432
Cost of sales	(11,882,779)	(8,777,827)	(6,564,245)
Gross Profit	3,931,738	3,066,403	2,330,187
Sales and marketing expenses	(338,645)	(256,064)	(203,244)
General and administrative expenses	(1,041,320)	(821,497)	(466,034)
Other operating income (expenses), net	(17,836)	107,395	(8,246)
Operating Income	2,533,937	2,096,237	1,652,663
Financial income	426,657	458,812	204,483
Financial expenses	(628,098)	(437,130)	(227,758)
Foreign exchange gains, net	298,004	132,862	57,861
Losses on derivatives, net	(17,531)	(7,128)	(22,000)
Equity in earnings of unconsolidated companies, net	66,263	118,074	96,476
Income Before Taxes on Income and Minority Interest	2,679,232	2,361,727	1,761,725
Provision for taxes on income			
Current	(419,242)	(442,016)	(347,545)
Deferred	(111,118)	3,115	(117,750)
Income Before Minority Interest	2,148,872	1,922,826	1,296,430
Minority Interest	(532,351)	(409,018)	(178,909)
Net Income	1,616,521	1,513,808	1,117,521

	As of December 31, (in thousands of US$)		
	2007	2006	2005
Balance Sheet Data			
Cash and cash equivalents	1,137,553	485,498	532,375
Short-term investments	1,757,623	2,483,052	1,761,421
Working capital [(1)]	4,899,425	4,160,127	3,294,599
Property, plant and equipment, net	8,619,714	5,990,629	3,517,962
Total assets	22,970,630	14,488,865	9,301,742
Short-term debt, current portion of long-term debt, and debentures	1,439,517	1,066,491	567,724
Long-term debt, less current portion	7,053,916	3,128,868	2,233,031
Long-term Debentures, less current portion	509,880	443,280	414,209
Total shareholders' equity	7,003,459	4,930,641	3,543,598

(1) Total current assets less total current liabilities.

Other Financial and Operating Information

	As of and for the year ended December 31, (in thousands of US$, except where indicated)		
	2007	2006	2005
Condensed Cash Flow Data:			
Cash flows from operating activities	3,318,175	1,454,531	345,073
Cash flows from investing activities	(5,568,488)	(1,697,477)	(760,664)
Cash flows from financing activities	2,858,916	176,418	624,888
Operating Data (in thousand tonnes):			
Consolidated shipments	17,159	14,890	12,860
Total production of long rolled steel(1)	15,160	12,803	10,049
Total production of slabs, billets and blooms(1)	17,907	15,767	12,979
Other Information:			
Capital expenditures	6,126,999	1,682,858	770,311
Depreciation and amortization	688,303	504,128	301,762
Adjusted EBITDA and ratios:			
Income before minority interest	2,148,872	1,922,826	1,296,430
(+) Financial expenses, financial income, foreign exchange gains and losses, net and gains and losses on derivatives, net	(79,032)	(147,416)	(12,586)
(+) Provision for income taxes	530,360	438,901	465,295
(+) Depreciation and amortization	688,303	504,128	301,762
(=) Adjusted EBITDA[(2)]	3,288,503	2,718,439	2,050,901
Total Debt	9,003,313	4,638,639	3,214,964
Total Debt/Adjusted EBITDA[(2)]	2.74	1.71	1.57
Adjusted EBITDA[(2)]/Financial expenses	5.24	6.22	9.00
Current liquidity ratio [(3)]	2.30	2.42	2.96

(1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products is sold directly to external customers and the remainder used in the rolling process.
(2) Adjusted EBITDA is a non-GAAP measure equal to income before minority interest, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on derivates (net), plus provision for income taxes, plus depreciation and amortization. Adjusted EBITDA is not a measure of financial performance recognized by U.S. GAAP, nor should it be considered in isolation, or as an alternative to net income, as a measure of operational performance, as an alternative to operating cash flow, or as a measure of liquidity.
(3) Current liquidity ratio consists of current assets divided by current liabilities.

RISK FACTORS

Prospective purchasers of bonds should carefully consider the risks described below, as well as the other information in this offering memorandum, before deciding to purchase any bonds. The Company's business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of the bonds could decline and you could lose all or part of your investment.

Risks Relating to Brazil

Brazilian Political and Economic Conditions, and the Brazilian Government's Economic and Other Policies May Negatively Affect Demand for the Company's Products as Well as Net Sales and Overall Financial Performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country's economy. The Brazilian government's actions to control inflation and implement other policies have involved interest rate increases, wage and price controls, currency depreciation, freezing of bank accounts, capital controls and restrictions on imports.

The Company's results of operations and financial condition may be adversely affected by the following factors and governmental reaction to them:

- fluctuations in exchange rates;
- interest rates;
- inflation;
- tax policies;
- exchange controls, as happened briefly in 1989 and early 1990;
- energy shortages;
- liquidity of domestic and foreign capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other developments in the Brazilian economy and governmental policies may adversely affect the Company and its business and may adversely affect the value of the bonds.

Inflation and Government Actions to Combat Inflation May Contribute Significantly to Economic Uncertainty in Brazil and Could Adversely Affect the Company's Business.

Brazil has, in the past, experienced high rates of inflation. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Wide Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA). It was 7.6% in 2004, 5.7% in 2005, 3.1% in 2006, and 4.5% in 2007. If Brazil again experiences high levels of inflation, the rate of growth of the economy may be slowed, which would lead to reduced demand for the Company's products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a consequence, the costs of servicing its *reais*-denominated debt may increase. Inflation may, in addition, hinder its access to capital markets, which could adversely affect its ability to refinance its indebtedness.

Inflationary pressures may also lead to the imposition of further government policies to combat inflation that could adversely affect its business and the market value of the bonds.

Foreign Exchange Variations Between the U.S. Dollar and the Currencies of the Countries in Which the Company Operates May Raise the Cost of Servicing Its Foreign Currency-Denominated Debt and Adversely Affect Its Overall Financial Performance.

The Company's results of operations are affected by foreign exchange-rate fluctuations between the Brazilian reais, the currency in which the Company prepares its financial statements, and the currencies of the countries in which it operates.

For example, Gerdau Ameristeel reports results in U.S. dollars. As a result, fluctuations in the exchange rate between U.S. dollars and the *real* may affect results of operations. The same happens with all the other businesses located outside Brazil with respect to the exchange rate between the local currency of the respective subsidiary and the *real*.

The *real* appreciated 11.8% in 2005, 8.7% in 2006 and 17.2% in 2007 against the U.S. dollar. On December 31, 2007, the U.S. dollar/*real* exchange rate was US$1.00 per R$1.7713.

Depreciation of the *real* relative to the U.S. dollar also could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, a depreciation of the *real* could weaken investor confidence in Brazil.

The Company had total foreign currency-denominated debt obligations in an aggregate amount of US$6,879.1 million at December 31, 2007, representing 76.6% of its indebtedness on a consolidated basis. On December 31, 2007, the Company had US$1,143.8 million in U.S. dollar-denominated cash equivalents and short-term investments. A significant depreciation of the *real* in relation to the U.S. dollar or other currencies could reduce the Company's ability to meet debt service requirements of foreign currency-denominated obligations, particularly as a significant part of net sales revenue is denominated in *real*.

Export revenues and margins are also affected by the *real's* fluctuations in relation to the U.S. dollar. The Company's production costs are denominated in local currency but its export sales are denominated in U.S. dollars. Financial revenues generated by exports are reduced when they are translated to *real* in the periods in which the Brazilian currency appreciates in relation to the U.S. currency.

Developments in Other Emerging Markets or in the U.S. May Adversely Affect The Company's Results of Operations.

Political, economic, social and other developments in other countries, particularly in Latin America and other emerging-market countries or in the U.S., may have an adverse effect on the market value of the Company. Although conditions in these countries may be quite different from those in Brazil, investors' reactions to developments in these countries may affect the Brazilian securities markets and reduce investor interest in securities of Brazilian issuers. Brazil has experienced periods with a significant outflow of U.S dollars, and Brazilian companies have faced higher costs for raising funds, both domestically and abroad, and have been impeded from accessing international capital markets. The Company cannot assure you that the international capital markets will remain open to Brazilian companies or that prevailing interest rates in these markets will be advantageous to the Company, which may limit the Company's ability to refinance its indebtedness.

Risks Relating to Gerdau and the Steel Sector

The Demand for Steel Is Cyclical and a Reduction in the Prevailing World Prices for Steel Could Adversely Affect the Company's Results of Operations.

The steel industry is highly cyclical both in Brazil and internationally. Consequently, the Company is exposed to substantial swings in the demand for steel products which in turn causes volatility in the prices of most of its products. Additionally, as the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the sector is heavily dependent on export markets. The demand for steel products and, thus, the financial condition and results of operations of companies in the steel industry, including the Company itself, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including trends in the construction sector and the automotive sector in general. Since 2003, demand for steel products from developing countries (particularly China), the strength of the Euro and overall worldwide economic growth have contributed to a historically high level of prices for the Company's steel products, but these relatively high prices may not endure, especially due to the worldwide expansion in installed capacity. Recently, the United States economy, especially important industries such as civil construction, has shown signs of reduced activity. Any material decrease in demand for steel or exporting by countries not able to consume their production could have a material adverse effect on the Company's operations and prospects.

Increases in Steel Scrap Prices or a Reduction in Supply Could Adversely Affect Production Costs and Operating Margins.

The main metallic input for the Company's mini-mills, which corresponded to 77.0% of total crude steel output in 2007 (in volume), is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. domestic market, as the U.S. is the main exporter of scrap, scrap prices in the Brazilian market are set by domestic supply and demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a commensurate increase in finished steel sale prices, the Company's profits and margins could be reduced. An increase in steel scrap prices or shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues.

Increases in Iron Ore and Coal Prices or a Reduction in Market Supply Could Adversely Affect the Company.

When the prices of raw materials that the Company needs to produce steel in its integrated facilities, particularly iron ore and coking coal, increase, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its Ouro Branco mill and at its Gerdau Barão de Cocais and Gerdau Divinópolis units, in the state of Minas Gerais. Iron ore is also used to produce sponge iron at the Gerdau Usiba unit, in the state of Bahia. In 2007, these four units represented 23.0% of its consolidated crude steel output in volume.

The Ouro Branco unit is the Company's biggest mill in Brazil, and its main metallic input for the production of steel is iron ore. In 2007, this unit represented 35.2% of the total crude steel output (in volume) of its Brazilian operations. A shortage of iron ore in the domestic market would adversely affect the steel producing capacity of its Brazilian units, and an increase in iron ore prices could reduce profit margins.

All of the Company's coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input in the Ouro Branco mill, and it is used in the coking facility. Although this mill is not dependent on supplies of coke, a contraction in the supply of coking coal could adversely affect the integrated operation at this site, since the Ouro Branco mill requires coking coal to produce coke in its coking facility. All the coking coal used in Ouro Branco is imported from Canada, the U.S. and Australia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Ouro Branco mill, and an increase in prices could reduce profit margins. The Company does not have long-term supply contracts for certain raw materials it uses.

The Company May Not Successfully Integrate Its Businesses, Management, Operations, or Products or Realize Any of the Anticipated Benefits of Future Acquisitions.

Over the years, the Company has increased participation principally in the North American market and today it is the second largest producer of long rolled steel products in that market. The integration of the business and opportunities stemming from entities recently acquired and those that may be acquired by the Company in the future may involve risks. The Company may not successfully integrate future acquired businesses, management, operations, products, and services with its current operations. Diversion of management's attention from its existing businesses, as well as problems that can arise in connection with the integration of the new operations, may have an impact on revenues and the results of operations. Integration of future acquisitions may result in additional expenses that could reduce profitability. The Company may not succeed in addressing these risks or any other problems encountered in connection with past and future acquisitions.

The Company Operations Are Energy-Intensive, and Energy Shortages or Price Increases May Adversely Affect It.

Steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. Electricity represents a significant cost component at these units, as does natural gas, to a lesser extent. Electricity cannot be replaced in the Company's mills and rationing or power shortages such as those that occurred in Brazil in 2001 could adversely affect production in those units.

Natural gas is used in the reheating furnaces at the Company's rolling mills. In the case of shortages in the supply of natural gas, the Company could in some instances change to fuel oil as an energy source. However, these measures could increase its production costs and consequently reduce its operating margins.

Restrictive Measures on Trade in Steel Products May Affect the Company's Business by Increasing the Price of Its Products or Reducing Its Ability to Export.

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The Company's exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, *ad valorem* taxes, tariffs or increases in import duties, any of which could increase the costs of products and make them less competitive or prevent the Company from selling in these markets. There can be no assurance that importing countries will not impose quotas, *ad valorem* taxes, tariffs or increase import duties.

Less Expensive Imports from Other Countries in North America May Adversely Affect the Company's Business.

Steel imports to North America have caused downward pressure on steel prices in recent years, adversely affecting sales and profit margins. Competition from foreign steel producers is strong and may grow due to increases in foreign installed steel capacity, depreciation of the U.S. dollar and a reduction in domestic steel demand in other markets. These factors lead to higher levels of steel imports to North America at lower prices. In the past, the U.S. government has taken temporary protective measures to regulate steel imports by means of quotas and tariffs. Protective measures may not be taken in the future and, despite trade regulation efforts, unfairly priced imports could enter into the North American markets in the future, resulting in price pressure that could adversely affect its business.

The Company's Equipment, Facilities and Operations Are Subject to Several Environmental Regulations that May Become More Strict in the Future and Result in Additional Liabilities and Higher Capital Investments.

The Company's activities are subject to wide-reaching environmental protection law. In Brazil compliance with this law is supervised by governmental entities and agencies, which can impose administrative penalties for noncompliance. Such penalties can include fines, the revocation of licenses and even temporary or permanent suspension of the Company's activities. The adoption of more strict environmental laws and regulations may require additional capital investments and, as a result, change the Company's investment planning. Such changes could have a material adverse effect on its financial condition and results of operations.

In addition, should the Company fail to comply with the environmental protection laws, it may be subject to criminal penalties in addition to the obligation to repair any damage it may have caused. These criminal penalties may include prison terms for those persons responsible, suspension of activities, loss of tax incentives or application of restrictions thereto, cancellation and suspension of financing by government credit entities and a prohibition to contract with any governmental entity, resulting in a negative impact on income or the inability to raise money in the financial markets.

Moreover, any failure to comply with the environmental laws or the obligations the Company has assumed in terms of conduct adjustment or judicial agreements may have a material adverse effect on its image, income and results of operations.

Any delay or refusal in the issuance or renewal of the necessary environmental licenses, as well as the Company's inability to meet the requirements established by those agencies during the course of the environmental licensing process may jeopardize or even prevent the installation and operation of its facilities.

The Company May Be Unable to Reduce Its Financial Leverage, Which Could Increase Its Cost of Capital and Adversely Affect Its Financial Condition or Results of Operations.

In 2007, the international rating agencies Fitch Ratings and Standard & Poor's classified the Company's credit risk as "investment grade," which allowed it to access financing at lower borrowing rates. Due to the Company's acquisitions in 2007, its ratio of total debt/EBITDA reached the maximum normally accepted by the agencies for an "investment grade" company. If the Company is unable to reduce this index, by increasing its cash generation or by reducing its total debt, it could lose its "investment grade" rating, which could increase its cost of capital and, consequently, adversely affect its financial condition and results of operations.

Steel Operations Require Substantial Capital Investment and Maintenance Expenditures Which May Encourage Producers to Maintain Production in Periods of Reduced Demand Which May in Turn Exert Downward Pressure on Prices for the Company's Products.

Steel manufacturing is very capital intensive, requiring the Company and other steel producers to maintain a large fixed-cost base requiring substantial maintenance expenditures. The high levels of fixed costs of operating a mini-mill encourage mill operators to maintain high levels of output, even during periods of reduced demand, which may exert additional downward pressure on selling prices and profit margins in those periods.

Unexpected Equipment Failures May Lead to Production Curtailments or Shutdowns.

Interruptions in the Company's production capabilities would increase production costs and reduce sales and earnings for the affected period. In addition to periodic equipment failures, the Company's facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. The Company's manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as the Company's electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in the Company's production capabilities would adversely affect productivity and results of operations. Moreover, any interruption in production capability may require the Company to make significant capital expenditures to remedy the problem, which would reduce the amount of cash available for operations. The Company's insurance may not cover such losses. In addition, long-term business disruption could harm the Company's reputation and result in a loss of customers, which could materially adversely affect the Company's business, results of operations and financial condition.

The Company is Exposed to Fluctuations in Interest Rates.

Certain of the Company's borrowings, primarily borrowings under the Company's senior secured credit facility and the term loan facility, are at variable rates of interest and expose the Company to interest rate risk. If interest rates increase, the Company's debt service obligations on the variable rate indebtedness would increase and the Company's net income would decrease. Significant changes in interest rates can increase the Company's interest expense and have a material adverse effect on the Company's results of operations or financial condition.

Estimates Used in the Preparation of the Company's Financial Statements May Differ from Actual Results.

The Company prepares its financial statements in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, amounts reported as contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the accounting period. Actual results could differ from the estimates made by management. Significant differences between actual results and estimates could have a material adverse effect on the Company's financial results and results of operations.

The Company Depends on Senior Management and the Company May Be Unable to Replace Key Executives if They Leave.

The Company's operations and prospects depend in large part on the performance of its senior management team. The Company cannot assure you that its executive officers will remain with the Company as employees. In addition, the Company cannot assure you that it would be able to find qualified replacements for any of these individuals if their services were no longer available. The loss of the services of one or more members of the senior management team or the Company's difficulty in attracting, retaining and maintaining additional senior management personnel could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Relating to the Bonds

Securities Laws Will Restrict Your Ability to Transfer the Bonds.

The bonds have not been registered under the Securities Act and applicable state securities laws and will be subject to transfer restrictions in order to ensure compliance with federal and state securities laws. In addition, neither the Company nor the Issuer is required to launch an exchange offer for the bonds or to register resales of the bonds under the Securities Act. You may not sell the bonds in the U.S. except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The bonds and the amended and restated indenture will contain provisions that will restrict the bonds from being offered, sold or otherwise transferred except pursuant to certain exemptions under the Securities Act. See "Description of the Bonds."

The Market for the Bonds May Not be Liquid.

The existing bonds are, and the bonds are expected to be, listed on the Luxembourg Stock Exchange but the Company can make no assurance as to the liquidity of or trading markets for the bonds. The Company cannot guarantee that the holders of the bonds will be able to sell their bonds in the future. If a market for the bonds does not develop, holders of the bonds may not be able to resell the bonds for extended periods of time, if at all.

Judgments of Brazilian Courts with Respect to the Bonds Would Be Payable Only in Reais.

If proceedings are brought in the courts of Brazil seeking to enforce the Company's obligations under the bonds, none of the Issuer, the Company or the other Guarantors would be required to discharge its or their obligations, as the case may be, in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than Brazilian currency, may only be satisfied in Brazilian currency at the exchange rate prevailing on the market on the date of payment, as published by the Brazilian Central Bank. Accordingly, if the Issuer, the Company or any of the other Guarantors were to be declared bankrupt, all the Issuer's, the Company's or such other Guarantor's credits denominated in foreign currencies would be converted into *reais* at the prevailing rate on the date of the declaration.

Restrictions on the Movements of Capital Out of Brazil May Impair the Ability of Holders of the Bonds to Receive Principal, Interest and Other Payments under the Guarantees.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments on external obligations. Many factors could cause the Brazilian government to institute more restrictive exchange control policies, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy towards the International Monetary Fund and political constraints to which Brazil may be subject. No assurances can be given that the Brazilian federal government will not take similar measures in the future. Reimposition of those restrictions on conversion and remittance could prevent the Issuer, the Company and the other Guarantors from converting payments of principal and interest on the bonds from *reais* into U.S. dollars and from remitting U.S. dollars abroad to holders of the bonds. It could also prevent the Company from making payments on its other foreign currency-denominated debt obligations. The Company's foreign currency-denominated debt represented 76.6% of its indebtedness on a consolidated basis at

December 31, 2007. If the Issuer or the Company fails to make payments under any of their respective obligations, they will be in default under these obligations, which could reduce the Company's liquidity as well as the market price of the bonds.

Payments on the Bonds and the Guarantees will be Junior to Any Secured Debt Obligations of the Issuer and the Guarantors, as the case may be, and Effectively Junior to Debt Obligations of Any Non-Guarantor Subsidiaries.

As of December 31, 2007, the Company had approximately US$9,003.3 million of consolidated indebtedness. Approximately US$605.4 million of this total amount was structurally senior to the bonds being sold in this offering, including US$161.8 million of the Company's and the other Guarantors' secured debts and US$443.6 million of the Company and the other Guarantor's non-guarantor subsidiaries' debt.

The Company is a holding company that engages in operations through its subsidiaries. As a result, its ability to service its debt, including its guarantee of the bonds, is dependent upon the cash flows of its subsidiaries. All of the Company's principal Brazilian operating subsidiaries are also guaranteeing the bonds but some of its other subsidiaries, including Gerdau Ameristeel, are not guaranteeing the bonds. Claims of creditors of the Company's non-guarantor subsidiaries and non-guarantor subsidiaries of the other Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the Company's and the other Guarantors' creditors claims. Accordingly, the bonds will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of the Company's or the other Guarantors' non-guarantor subsidiaries. The amended and restated indenture will not require the Company's future subsidiaries to guarantee the bonds, and it will restrict a Guarantor from disposing of its assets to a third party or the Company's subsidiary or such Guarantor that is not guaranteeing the bonds.

The amended and restated indenture governing the bonds will permit the incurrence of additional debt, some of which may be secured debt.

If the Issuer or any of the Guarantors becomes insolvent or is liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the lenders will have priority over any claim for payment under the bonds to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the bonds could be satisfied. Further, if any assets did remain after payment of these lenders, the remaining assets might be insufficient to satisfy the claims of the holders of the bonds and holders of other unsecured debt that is deemed the same class as the bonds, and potentially all other general creditors who would participate ratably with holders of the bonds.

The Obligations of the Guarantors under the Guarantees are Subordinated to Certain Statutory Liabilities.

Under Brazilian law, the obligations of the Guarantors under the bonds, the guarantees and the amended and restated indenture are subordinated to certain statutory preferences. In the event of the bankruptcy of any of the Guarantors, according to the Brazilian bankruptcy law, such statutory preferences, such as certain claims for salaries and wages to a certain limit, social security and other taxes, court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the bonds.

USE OF PROCEEDS

The net proceeds of US$513,142,972 from the sale of the bonds will be used for the Company's general corporate purposes.

EXCHANGE RATES

Prior to March 14, 2005, there were two principal foreign exchange markets in Brazil:

- the commercial rate exchange market, dedicated principally to foreign trade transactions and transactions that generally required prior approval from Brazilian monetary authorities, such as the purchase or sale of registered investments by foreign entities, the purchase or sale of shares or the payment of dividends; and

- the floating rate exchange market generally used for specific transactions not conducted through the commercial rate exchange market.

Most trade and financial foreign-exchange transactions in Brazil were carried out in the commercial rate exchange market.

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*) enacted Resolution No. 3,265, as well as additional regulations, that consolidated the two foreign exchange markets into a single foreign exchange market, effective as of March 14, 2005. Consequently, all foreign exchange transactions in Brazil are now carried out in this single foreign exchange market through authorized financial institutions. However, the underlying transaction must be legal. Foreign currencies may only be purchased through Brazilian financial institutions authorized to operate in the foreign exchange market and are subject to registration with the Brazilian Central Bank electronic system.

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by the Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *reais* against the U.S. dollar. In January 1999, the Central Bank allowed the *reais*/U.S. dollar exchange rate to float freely. Since then, the *reais*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 2001 through December 31, 2007 the *reais* appreciated 23.7% against the U.S. dollar, and at June 6, 2008, the selling rate for U.S. dollars was R$1.6282 per US$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. The Central Bank or the Brazilian government may continue to allow the *reais* to float freely or it may intervene in the exchange rate market through a currency band system or otherwise.

The following table shows the commercial selling rate or selling rate, as applicable, for U.S. dollars for the periods and dates indicated. The information in the "Average" column represents the average of the exchange rates on the last day of each month during the periods presented. The table uses the commercial selling rate prior to March 14, 2005.

	***Reais* per U.S. Dollar**			
Year Ended December 31,	**High**	**Low**	**Average**	**Period End**
2003	3.662	2.822	3.071	2.889
2004	3.205	2.654	2.909	2.654
2005	2.762	2.163	2.435	2.341
2006	2.371	2.059	2.117	2.138
2007	2.156	1.732	1.948	1.771

	***Reais* per U.S. Dollar**	
Months in 2008	**High**	**Low**
January	1.830	1.741
February	1.768	1.671
March	1.749	1.670
April	1.753	1.658
May	1.695	1.629

Source: Central Bank.

CAPITALIZATION OF GERDAU

The following table sets forth Gerdau's consolidated capitalization at December 31, 2007 on an historical basis and as adjusted to give effect to this offering. Except as otherwise disclosed herein, there has been no material change to the capitalization of Gerdau since December 31, 2007. This table should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements and the notes thereto included elsewhere in this offering memorandum.

	Actual	**As adjusted for the sale of common and preferred shares (1) and for this offering**
	(in thousands of US$)	
Debt:		
Current debt:		
Short-term debt, current portion of long-term debt and debentures	1,439,517	1,439,517
Long-term debt:		
Long-term debt, less current portion	7,053,916	7,053,916
Bonds offered hereby (aggregate principal amount)	-	500,000
Debentures	509,880	509,880
Total Debt	9,003,313	9,503,313
Shareholders' equity:		
Capital stock	3,432,613	5,142,065
Additional paid-in capital	134,490	134,490
Treasury stock	(44,778)	(44,778)
Legal reserve	154,420	154,420
Retained earnings	2,569,255	2,569,255
Accumulated other comprehensive income	757,459	757,459
Total shareholders' equity	7,003,459	8,712,224
Total debt and shareholders' equity	16,006,772	18,216,224

(1) As adjusted for (i) the sale of preferred shares, including preferred shares in the form of ADSs, at the public offering prices of US$36.00 per ADS and R$60.30 per preferred share (based upon the ADS price of US$36.00 and the average of the selling and purchase exchange rates at 12:30 pm on April 24, 2008 as reported by the Central Bank of Brazil, of R$1.6750 to US$1.00) considering that the underwriters' overallotment options were exercised, and (ii) the sale of common shares, in the simultaneous offering exempt from registration under the Securities Act, at the offering price of R$60.30 per common share, in each case after deduction of the underwriting discounts and commissions and estimated transaction expenses payable by us in connection with the global offering.

SUMMARY FINANCIAL AND OTHER INFORMATION OF GERDAU

The following table sets forth Gerdau's summary financial information, presented in U.S. dollars and prepared in accordance with U.S. GAAP and operating data.

The summary financial information as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 have been derived from and must be read with, the Company's audited consolidated financial statements included elsewhere in this offering memorandum. The sumary financial information as of December 31, 2005 has been derived from audited consolidated financial statements of the Company not included in this offering memorandum.

The summary financial information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements included elsewhere in this offering memorandum.

	For the year ended December 31, (in thousands of US$)		
	2007	**2006**	**2005**
Consolidated Statement of Income Data			
Net Sales	15,814,517	11,844,230	8,894,432
Cost of sales	(11,882,779)	(8,777,827)	(6,564,245)
Gross Profit	3,931,738	3,066,403	2,330,187
Sales and marketing expenses	(338,645)	(256,064)	(203,244)
General and administrative expenses	(1,041,320)	(821,497)	(466,034)
Other operating income (expenses), net	(17,836)	107,395	(8,246)
Operating Income	2,533,937	2,096,237	1,652,663
Financial income	426,657	458,812	204,483
Financial expenses	(628,098)	(437,130)	(227,758)
Foreign exchange gains, net	298,004	132,862	57,861
Losses on derivatives, net	(17,531)	(7,128)	(22,000)
Equity in earnings of unconsolidated companies, net	66,263	118,074	96,476
Income Before Taxes on Income and Minority Interest	2,679,232	2,361,727	1,761,725
Provision for taxes on income			
Current	(419,242)	(442,016)	(347,545)
Deferred	(111,118)	3,115	(117,750)
Income Before Minority Interest	2,148,872	1,922,826	1,296,430
Minority Interest	(532,351)	(409,018)	(178,909)
Net Income	1,616,521	1,513,808	1,117,521

	As of December 31, (in thousands of US$)		
	2007	2006	2005
Balance Sheet Data			
Cash and cash equivalents	1,137,553	485,498	532,375
Short-term investments	1,757,623	2,483,052	1,761,421
Working capital [(1)]	4,899,425	4,160,127	3,294,599
Property, plant and equipment, net	8,619,714	5,990,629	3,517,962
Total assets	22,970,630	14,488,865	9,301,742
Short-term debt, current portion of long-term debt, and debentures	1,439,517	1,066,491	567,724
Long-term debt, less current portion	7,053,916	3,128,868	2,233,031
Long-term Debentures, less current portion	509,880	443,280	414,209
Total shareholders' equity	7,003,459	4,930,641	3,543,598

(1) Total current assets less total current liabilities.

Other Financial and Operating Information

	As of and for the year ended December 31, (in thousands of US$, except where indicated)		
	2007	2006	2005
Condensed Cash Flow Data:			
Cash flows from operating activities	3,318,175	1,454,531	345,073
Cash flows from investing activities	(5,568,488)	(1,697,477)	(760,664)
Cash flows from financing activities	2,858,916	176,418	624,888
Operating Data (in thousand tonnes):			
Consolidated shipments	17,159	14,890	12,860
Total production of long rolled steel(1)	15,160	12,803	10,049
Total production of slabs, billets and blooms(1)	17,907	15,767	12,979
Other Information:			
Capital expenditures	6,126,999	1,682,858	770,311
Depreciation and amortization	688,303	504,128	301,762
Adjusted EBITDA and ratios:			
Income before minority interest	2,148,872	1,922,826	1,296,430
(+) Financial expenses, financial income, foreign exchange gains and losses, net and gains and losses on derivatives, net	(79,032)	(147,416)	(12,586)
(+) Provision for income taxes	530,360	438,901	465,295
(+) Depreciation and amortization	688,303	504,128	301,762
(=) Adjusted EBITDA[(2)]	3,288,503	2,718,439	2,050,901
Total Debt	9,003,313	4,638,639	3,214,964
Total Debt/Adjusted EBITDA[(2)]	2.74	1.71	1.57
Adjusted EBITDA[(2)]/Financial expenses	5.24	6.22	9.00
Current liquidity ratio [(3)]	2.30	2.42	2.96

(1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products is sold directly to external customers and the remainder used in the rolling process.
(2) Adjusted EBITDA is non-GAAP measure equal to income before minority interest, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on derivates (net), plus provision for income taxes, plus depreciation and amortization. Adjusted EBITDA is not a measure of financial performance recognized by U.S. GAAP, nor should it be considered in isolation, or as an alternative to net income, as a measure of operational performance, as an alternative to operating cash flow, or as a measure of liquidity.
(3) Current liquidity ratio consists of current assets divided by current liabilities.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table sets forth condensed combined statements of income of Gerdau, S.A. and its subsidiaries giving effect to the acquisition of Chaparral Steel Company (“Chaparral Steel”). Pursuant to the completion of the acquisition (the “Transaction”), Chaparral Steel including its subsidiaries, became a wholly-owned subsidiary of Gerdau Ameristeel, a majority owned subsidiary of the Company, on September 14, 2007.

The unaudited pro forma condensed combined statement of income has been prepared in accordance with U.S. GAAP, which is consistent with the preparation of the Company’s financial statements.

The unaudited pro forma condensed combined statement of income for the year ended December 31, 2007 gives effect to the transaction as if it has occurred on January 1, 2007 and has been prepared by combining (i) Gerdau’s audited consolidated statement of income for the year ended December 31, 2007, which includes the income statement of Chaparral Steel from September 14, 2007, the date of the Company’s acquisition of Chaparral, and (ii) Chaparral Steel’s unaudited consolidated statement of income for the nine months ended August 31, 2007, which was prepared by combining Chaparral Steel’s consolidated statement of income for the three months ended February 28, 2007, the three months ended May 31, 2007 and the three months ended August 31, 2007.

The unaudited pro forma condensed combined statement of income has been prepared based upon currently available information and assumptions that are deemed appropriate. The unaudited pro forma condensed combined statement of income is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the Transaction for which the Company is giving pro forma effect actually occurred on the date referred to above, nor is such pro forma condensed combined statement of income necessarily indicative of the results of future operations. The unaudited pro forma condensed combined statement of income requires the Company to make estimates and assumptions for which the actual results may differ and could have a material effect on the Company’s results of operations. In the opinion of management of Gerdau, the unaudited pro forma statement of income includes all adjustments necessary for a fair presentation.

GERDAU S.A.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Year Ended December 31, 2007
(in thousands of US$, except per share amounts)

	Gerdau S.A. Year ended 12/31/07	Chaparral Steel 9 months ended 8/31/07	Pro forma Acquisition Consolidated	Note 2	Pro forma Combined after Acquisition of Chaparral
Net Sales	$ 15,814,517	1,385,340	(2,774)	a)	$ 17,197,083
Cost of Sales	(11,882,779)	(984,725)	(75,269)	a), b) and c)	(12,942,773)
Gross Profit	3,931,738	400,615	(78,043)		4,254,310
Sales, marketing, general and administrative expenses	(1,379,965)	(48,269)	—		(1,428,234)
Other operating (expenses) income, net	(17,836)	15,380	(12,230)	d)	(14,686)
Operating Income	2,533,937	367,726	(90,273)		2,811,390
Financial expenses and Financial income, net	(218,972)	(23,726)	(117,356)	d), e) and f)	(360,054)
Foreign exchange gains and losses, net	298,004	—	—		298,004
Equity in earnings of unconsolidated companies, net	66,263	—	—		66,263
Income before taxes on income and minority interest	2,679,232	344,000	(207,629)		2,815,603
Provision for taxes on income	(530,360)	(115,012)	76,228	g)	(569,144)
Income before minority interest	2,148,872	228,988	(131,401)		2,246,459
Minority interest	(532,351)	—	(34,155)	h)	(566,506)
Net income	$ 1,616,521	228,988	(165,556)		$ 1,679,953
Per share data					
Basic earnings per share	$ 2.44				$ 2.54
Diluted earnings per share	$ 2.42				$ 2.51

See the accompanying notes to the unaudited pro forma condensed combined financial statements.

GERDAU S.A.
Notes to the Unaudited Pro forma Condensed Combined Statement of Incomes — (Unaudited)

1. Basis of presentation

The unaudited pro forma condensed combined statement of income has been prepared in accordance with U.S. GAAP that are consistent with those used in the Company's financial statements.

On July 10, 2007, Gerdau announced that it signed a definitive merger agreement to acquire Chaparral Steel. Under the terms of the merger agreement, the Company paid US$86.00 per share in cash. The transaction was completed on September 14, 2007.

The unaudited pro forma condensed combined statement of income for the year ended December 31, 2007 has been prepared by combining (i) Gerdau's audited consolidated statement of income for the year ended December 31, 2007, which includes Chaparral Steel from September 14, 2007 the date of acquisition and (ii) Chaparral Steel's unaudited consolidated statement of income for the nine months ended August 31, 2007, which was prepared by combining Chaparral Steel's consolidated statement of income for the three months ended February 28, 2007, the three months ended May 31, 2007 and the three months ended August 31, 2007, and gives effect to the Transaction as if it had occurred on January 1, 2007.

The unaudited pro forma condensed combined statement of income has been prepared based upon currently available information and assumptions that are deemed appropriate. The unaudited pro forma condensed combined statement of income is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the Transaction for which the Company is giving pro forma effect actually occurred on the date referred to above, nor is such pro forma condensed combined statement of income necessarily indicative of the results of future operations. The unaudited pro forma condensed combined statement of income requires the Company to make estimates and assumptions for which the actual results may differ and could have a material effect on the Company's results of operations. In the opinion of management of Gerdau, these unaudited pro forma statements include all adjustments necessary for a fair presentation.

2. Pro forma acquisition adjustments

The pro forma combined adjustments column on the condensed combined statement of income reflects the following pro forma adjustments:

***Net* sales**

a) Elimination of transactions between the Company and Chaparral Steel.

Cost of sales

b) Adjustment to reflect the impact of the transition from the LIFO basis of valuation of inventory to weighted average basis of valuation used by the Company. In addition, the impact of the fair value adjustment of the inventory and the elimination of the transactions between the Company and Chaparral Steel are also reflected.

***Depreciation and* amortization**

c) To reflect depreciation and amortization of fixed assets and finite-live intangibles assets. Depreciation and amortization expense would have been increased US$58.2 million for the year ended December 31, 2007 in comparison to the historical cost basis used by Chaparral Steel for these periods.

Other operating (expenses) income, net

d) Reclassification of amounts to Financial expenses and financial income, net as a manner to ensure the same criteria of accounting classification adopted by the Company.

Financial expenses and Financial income, net

e) Includes the interest expenses of the new financing arrangements (in thousands of US$):

		Year ended December 31, 2007
Interest on Bridge and Term Loan	$	113,724
Interest income reduction ($ 300M* 4%pa - cash used acquisition)	$	12,000
	$	**125,724**

On September 14, 2007, the Gerdau Ameristeel financed its acquisition of Chaparral Steel Company, in part, by a US$1,150,000 Bridge Loan Facility and a US$2,750,000 Term Loan Facility. By December 31, 2007, the Bridge Loan facility had been fully repaid and US$150,000 of the Term Loan has also been repaid.

Amortization of deferred financing costs

f) Amortization of the deferred financing charges of the new financing arrangements using the effective interest method over the term of the debt in the amount of US$3,862,000.

Provision for taxes on income

g) To reflect the income tax provision on the pro forma adjustments, based on statutory rates of the respective entities.

Minority interest

h) To reflect the portion of the income that is not owned by the Company due to the minority interest on the pro forma adjustments and Chaparral Steel statements of income.

3. Earnings per Share

The following table identifies the components of basic and diluted earnings per share (in thousands of US$ except per share data):

	For the Year Ended December 31, 2007			
		Gerdau S.A. Consolidated Year ended December 31, 2007		Pro forma Combined after Acquisition of Chaparral
Basic earnings per share:				
Basic net earnings	$	1,616,521	$	1,679,953
Average shares outstanding		662,570,359		662,570,359
Basic net earnings per share	$	2.44	$	2.54
Diluted earnings per share:				
Diluted net earnings	$	1,616,521	$	1,679,953
Diluted average shares outstanding				
Average shares outstanding		662,570,359		662,570,359
Dilutive effect of stock options and share units		5,787,944		5,787,944
		668,358,303		668,358,303
Diluted earnings per share	$	2.42	$	2.51

4. Estimate purchase price allocation

The US$4.2 billion purchase price has been allocated based on the following preliminary estimates of the fair values of assets acquired and liabilities assumed at the closing date. These estimates may be adjusted based upon the results of the final valuation, which is expected to be completed within 12 months after the completion of the acquisition (in thousands of US$):

Net assets (liabilities) acquired	
Current assets	$ 1,059,573
Property, plant and equipment	703,811
Intangible assets	605,671
Other long-term assets	11,519
Current liabilities	(503,796)
Long-term liabilities	(415,299)
Net fair market value	1,461,479
Goodwill	2,773,209
Total consideration allocated	$ 4,234,688

The preliminary purchase price allocation to the identifiable intangible assets is as follows:

			Remaining Useful life
Customer relationships	$	561,000	15 years
Patented technology		29,000	5 years
Internally developed software		1,000	2 years
Order backlog		14,671	1.5 months
	$	605,671	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements at December 31, 2007 and 2006 and for each of the years in the three year period ended December 31, 2007 included in this offering memorandum, in accordance with U.S. GAAP, as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of Gerdau."

The following discussion contains forward-looking statements that are based on management's current expectations, estimates and projections and involve risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

A. OPERATING RESULTS

Overview

According to the IBS, the Company is Brazil's largest producer of long rolled steel and, according to AISI estimates, the second largest steel producer in North America based on volume produced. The Company produces a large variety of long rolled products that are directed mainly to the civil construction sector and other industrial manufacturing sectors. The Company's long rolled products used in construction include merchant bars and rebars and its long rolled products for the industrial manufacturing sector consist of different types of bars and wire rods. The Company uses portions of the wire rods that it produces to manufacture wire products such as barbed and fence wire, welding wire, fasteners and steel cords and to manufacture transformed steel products such as welded mesh, trusses, pre-stressed wires, annealed wires and nails sold to construction companies, as well as drawn bars for the automotive industry. The Company had an installed capacity, excluding its joint ventures, of 24.8 million tonnes of crude steel and 21.0 million tonnes of rolled products at December 31, 2007. In 2007, the Company produced a total of 17.9 million tonnes of crude steel and 15.2 million tonnes of rolled steel products compared with 15.8 million tonnes of crude steel and 12.8 million tonnes of rolled steel products in 2006. As of and for the year ended December 31, 2007, the Company had total assets of US$22,970.6 million, consolidated net sales of US$15,814.5 million, total net income of US$1,616.5 million and shareholders equity of US$7,003.5 million.

The primary factors affecting the Company's results of operations include:

- Brazilian economic and political conditions;
- U.S. economic and political conditions;
- the fluctuation in exchange rates between the real and the U.S. dollar;
- the cyclical nature of supply and demand for steel products both inside and outside Brazil, including the prices for steel products;
- the Company's export levels; and
- the Company's production costs.

Brazilian Economic Conditions

The Company's results and financial position depend largely on the situation of the Brazilian economy, notably economic growth and its impact on steel demand, financing costs and the availability of financing, and exchange rates between Brazilian and foreign currencies.

Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, on the inflation targeting regime, the adoption of variable foreign exchange, the increase in foreign investments and the compliance with the international financial agreements, including the full payment of the debt to the International Monetary Fund, contributed to improving the economic conditions in Brazil.

In 2006, Brazilian GDP increased by 3.8%, totaling US$1.1 trillion, representing a commercial surplus of US$46 billion. Inflation, as measured by IPCA, was 3.1%. The interest rates continued to be high in 2006, with an average CDI rate of 15.0%. In 2006, the Brazilian real appreciated 8.7% compared to the U.S. dollar, achieving the rate of R$2.14 to US$1.00.

In 2007, the Brazilian GDP increased by 5.4%. Inflation, as measured by IPCA, was 4.5%. The annual average CDI rate was 11.8%. On December 31, 2007, the U.S. dollar/Brazilian real foreign exchange rate was R$1.771 to US$1.00. The annual inflation goal of the National Monetary Council (CMN) in 2007 was 4.5%, based on the IPCA index, the same goal estimated for 2008. The acceptable margin for the Brazilian government is 2.0 percentage points above or below.

Inflation affects Gerdau's financial performance by increasing operating expenses denominated in *reais*. A significant portion of its costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate.

Moreover, a significant portion of the Company's debt denominated in Brazilian *reais* is subject to interest at the CDI and TJLP rates, taking into account the effects of inflation. Another portion of the Company's debt denominated in Brazilian *reais* is indexed, generally based on the IGP-M rate, taking into account the effects of inflation. Therefore, an increase in inflation results in increases in the Company's financial expenses and debt service obligations.

The interest rates the Company pays depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of the Company, its industry and the Brazilian economy made by the Company's potential lenders, its potential purchasers of the Company's debt securities and the rating agencies that assess the Company and the Company's debt securities. The Company's debt obligations with variable interest rates expose the Company to market risks from changes in the CDI rate, IGP-M and LIBOR. To reduce its exposure to interest rate risk, the Company has sought from time to time to enter into hedging arrangements to mitigate fluctuations in variable or floating rates, such as LIBOR.

The table below sets forth the actual GDP growth, inflation rates, interest rates and the foreign exchange rates between the U.S. dollar and the real for the periods indicated.

	2007	**2006**
Actual GDP growth	5.4%	3.8%
Inflation (IGP-M)(1)	7.8%	3.9%
Inflation (IPCA)(2)	4.5%	3.1%
CDI rate (3)	11.8%	15.0%
6 Month LIBOR	4.6%	5.4%
Depreciation (appreciation) of the Brazilian real against the U.S. Dollar	(17.2)%	(8.7)%
Foreign exchange rate at the end of the year - US$1.00	R$1.7713	R$2.138
Average foreign exchange rate - US$1.00(4)	R$1.9479	R$2.117

Sources: Fundação Getúlio Vargas, Central Bank of Brazil and Bloomberg

(1) Inflation (IGP-M) equivalent to the General Market Price Index measured by Fundação Getúlio Vargas.
(2) Inflation (IPCA) equivalent to the Extended Consumer Price Index measured by Instituto Brasileiro de Geografia e Estatistica (IBGE).
(3) The CDI rate is equivalent to the fixed average rate of interbank deposits recorded during the day in Brazil (accumulated to the month at the end of the period, on an annual basis).
(4) Average of the foreign exchange rates on the last day of each month for the period indicated.

U.S. economic conditions

In view of the size of the Company's operations in the U.S., U.S. economic conditions have a significant effect on the Company's results, particularly with regard to economic growth in the U.S. and the related effects on the demand for steel, financing costs and availability of credit.

In 2006, U.S. GDP increased by 2.9%, totaling US$13.2 trillion and representing a deficit in the trade balance of payments of US$811 billion. Inflation, as measured by CPI, was 3.2%. The average interest rate of the Fed Funds was 4.97%. Fed Funds means the interest rate established by the U.S. Federal Reserve which is paid on deposits by commercial banks at U.S. Federal reserve banks.

In 2007, U.S. GDP increased by 2.2%, totaling US$13.8 trillion and representing a deficit in the trade balance of payments of US$784 billion, according to the International Monetary Fund. Inflation in 2007, as measured by CPI, was 2.9%. The average Fed Funds rate was 5.0%.

The table below sets forth the actual GDP growth in the U.S., the inflation rate and the interest rates for the periods indicated.

	2007	**2006**
Actual GDP growth	2.2%	2.9%
Inflation (CPI)(1)	2.9%	3.2%
Fed funds (2)	5.0%	5.0%

Sources: Congressional Budget Office (CBO) and Federal Reserve Statistical Release

(1) CPI inflation comprises the research related to the consumer price index for all urban consumers.
(2) Fed funds correspond to the interest rate established by the Federal Reserve of the United States.

Impact of Inflation and Fluctuations in Exchange Rates

Gerdau's results and its financial position are largely dependent on the state of the Brazilian economy, notably (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) the exchange rates between the real and foreign currencies.

For many years, Brazil experienced high rates of inflation that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation . Since the introduction of the real in July 1994, the inflation rate in Brazil has decreased dramatically. Following the implementation of the Real Plan, the Brazilian GDP increased, rising by 1.4% in 2001, 1.5% in 2002, decreasing by 0.2% in 2003, increasing by 5.2% in 2004 and increasing again by 2.3% in 2005 and by 3.7% in 2006.

The following table presents Brazilian inflation and the performance of the performance of the *real* against the U.S. dollar for the periods shown.

	Year ended December 31					
	2007	2006	2005	2004	2003	2002
Inflation (INPC base)	4.5%	2.81%	5.04%	6.13%	10.38%	14.74%
Inflation (IGP-M)	7.8%	3.85%	1.20%	12.42%	8.69%	25.30%
Appreciation (devaluation) of US$ versus Brazilian real	10.5%	-8.65%	-11.85%	-8.13%	-18.23%	52.27%

In a positive economic environment, the real appreciated against the U.S. dollar throughout 2006 leading to a significant improvement in Brazilian country risk and a gradual reduction in interest rates.

A portion of Gerdau's trade accounts receivable, trade accounts payable and debt is denominated in currencies different from the respective functional currency of each subsidiary. Brazilian operating subsidiaries' (Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços) functional currency is the Brazilian *real*. Brazilian subsidiaries have foreign currency denominated assets and liabilities, mainly in U.S. dollars. In 2006, 2005, 2004 and 2003, Gerdau's results were affected by the appreciation of the Brazilian *real* against the U.S. dollar, generating losses in its U.S. dollar-denominated trade accounts receivable from exports, and generating gains in the U.S. dollar denominated trade accounts payable and also debt. The reduction of net debt balances (defined as short and long term debt less short term investments, restricted cash and cash equivalents) during 2006 compared to 2005 and the appreciation of the *real*, together with the increase in the balance of trade accounts receivable and trade accounts payable generated a net foreign exchange gain during 2006. Gerdau's financial statements are presented in U.S. dollars with transactions in currencies other than the U.S. dollar translated into U.S. dollars in accordance with the criteria established in SFAS No. 52 Foreign Currency Translations. Changes in the exchange rates between the functional currencies of the Company's operations, such as the Brazilian *real* and the U.S. dollar, affect the reported amounts of revenues and expenses in the consolidated statements presented in U.S. dollars.

The cyclical nature of supply and demand for steel products both inside and outside Brazil, including the prices for steel products

Prices of steel products in general are sensitive to changes in worldwide and local demand, which in turn are affected by worldwide and country specific economic conditions. Prices of steel products are also linked to available installed capacity. Most of the Company's long rolled steel products, including rebars, merchant bars and common wire rods, can be classified as commodities. However, a significant portion of the Company's long rolled products, such as specialty steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, all of which factors affect prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, the total global production of crude steel has varied, between approximately 799 million and 1.3 billion tonnes per year. According to IISI, the global production of crude steel in 2007 was 1,322 million tonnes, 7.4% greater than in 2006. China continued to increase its production of crude steel, notwithstanding the governmental efforts to limit the production at certain inefficient mills. Despite the fact that China became an exporter of long steel in 2006, its production has not yet affected international prices, because demand remains strong in the major steel markets. According to IISI, worldwide demand for finished steel products increased by 48.6% between 2000 and 2006, an annual average growth rate of 6.8%.

Steel prices in the international market have increased over the last four years due to increased demand from China which has caused steel producers to invest in new projects to increase installed capacity.

In 2007 the Brazilian market continued the expansion started in 2006. The civil construction market continued to be the main driver of the expansion supported by a number of other factors, such as governmental measures to reduce the tax burden, effective controls on inflation an increase in the population's disposable income, increasing employment opportunities, and interest rate reductions. The agribusiness was recovering from the effects of bird flu and low crop and commodity prices, while the industrial market continued to grow.

Export levels

During periods in which the domestic demand for the Company's products is reduced, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of increased domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand.

In 2007, the Company's exports from Brazil accounted for 30.6% of the sales volume of Brazilian units, compared to 36.2% in 2006, resulting in revenues of US$1.4 billion, compared to US$1.3 billion in 2006. In 2007, exports totaled 2.1 million tonnes, a reduction of 10.3% compared to 2006.

Production costs

Raw materials account for the greatest percentage of production costs of the Company. In Brazil, the mettalic inputs (scrap, pig iron, iron ore and ferro-alloys) represent approximately 36.5% of the production costs, while in North America (basically scrap), these costs represent approximately 57.0%.

In general, the prices of the ore inputs, both in Brazil and abroad, have increased over the last few years, due to a significant increase in international demand leveraged mainly by China.

Significant events affecting financial performance during 2007

Acquisitions

In 2007, the Company made a number of acquisitions, including the acquisition of large public companies, such as Chaparral. For further information, see Note 4 – Acquisitions to the Company's consolidated financial statements. The Company's results of operations in 2007 were affected by these acquisitions to the extent that the results of the companies acquired were accounted for the first time. Therefore, the Company's results of operations for 2007 and 2006 may not be directly comparable.

Seasonality of the Company's Business

The Company's sales are subject to seasonal variation and to the economic performance of its primary market, which, in turn, are subject to variations based on changes in the GDP of the countries in which the Company operates. For the Company's Brazilian and Latin American operations second and third quarter shipments tend to be stronger than those in the first and fourth quarters as a result of a reduction of construction activities. For the Company's North American operations, demand is influenced by winter conditions, when consumption of electricity and other energy sources (i.e., natural gas) for heating increases and may be exacerbated by adverse weather conditions, contributing to increased costs, decreased construction activity, resulting in lower sales. With respect to the Company's operations in Spain the third quarter is traditionally the time during which collective vacations occur reducing the quarter's activities to only two months.

Critical Accounting Policies

General

Critical accounting policies are those that are both (1) important to the portrayal of the Company's financial condition and results and (2) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates impacting matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In connection with the preparation of the financial statements included in this offering memorandum, the Company's management has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by management in the ordinary course of business, the portrayal of its financial condition and results of the operation often requires the Company to make judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from those estimated using different variables, assumptions or conditions. In order to provide an understanding of how management forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to each critical accounting policy, described as follows:

- deferred income taxes;
- pension and post employment benefits;
- environmental liabilities;
- derivative financial instruments;

- useful lives of fixed long-lived assets;
- fair value of non-quoted financial instruments, and
- valuation of assets acquired and liabilities assumed in business combinations.

Deferred Income Taxes

The liability method of accounting for income taxes is used for deferred income taxes generated by temporary differences between the book value of assets and liabilities and their respective tax values and for tax loss carry forwards. Deferred income tax assets and liabilities are measured using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. A valuation allowance is recorded to the extent that the recoverability of the future income tax assets is not considered more likely than not. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to make a valuation allowance and when the amount of the valuation allowance was estimated.

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Effective the first annual reporting period beginning on or after December 15, 2008, as a result of issuance of SFAS 141 "Business Combinations" – Revised ("SFAS 141R") requires an acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination generally in income from continuing operations. Previously, when a reduction of the acquirer's valuation allowance was required because of a business combination it should be recognized through a corresponding reduction to goodwill or certain noncurrent assets or an increase in so-called negative goodwill. This reviewed rules are applicable also for business combinations consummated before the effective date of SFAS 141R.

Pension and Post-employment Benefits

The Company accrues its obligations relating to employee benefit plans and their related costs, net of plan assets, adopting the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated for service and management's best estimate of expected investment performance for funded plans, growth in salaries, retirement ages of employees and expected health care costs. The discount rate used for determining the liability for future benefits is an estimate of the current interest rate on the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of obligations.
- Pension assets are valued at fair market value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active on the date of amendment.
- The net actuarial gain or loss that exceeds 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- A plan curtailment will result if there has been a significant reduction in the expected future service of present employees. A net curtailment loss is recognized when the event is probable and can be estimated, while a net curtailment gain is deferred until realized.

In accounting for pension and post-retirement benefits, several statistical and other factors, which attempt to anticipate future events, are used in calculating plan expenses and liabilities. These factors include discount rate assumptions, expected return on plan assets, future increases in health-care costs and rate of future compensation increases. In addition, actuarial consultants also use subjective factors such as withdrawal, turnover and mortality rates to estimate these factors. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates or longer or shorter participant life spans.

Environmental Liabilities

Gerdau has made provisions for potential environmental liabilities based on best estimates for potential clean-up and compensation costs for known environmental sites. The Company employs a staff of experts to manage all phases of its environmental programs, and use outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates, with changes in facts and circumstances possibly resulting in material changes in environmental provisions.

Derivative Financial Instruments

Gerdau applies SFAS 133 - Accounting for Derivative Instruments and Hedging Activities as amended and interpreted.

Derivate financial instruments include swaps of interest rates contracted in Brazil and Latin America, swaps of fixed interest rates in U.S. dollars for a variable interest rates based on a LIBOR, swaps by which the Company exchanges fixed interest rates in U.S. dollars for variable interest rates based on Japanese Libor in Japanese yen and reverse swaps whereby the Company receives a variable interest rates in U.S. dollars and pays variable interest rates based on Japanese Libor in Japanese yen.

The Company values its derivative financial instruments considering quotations obtained from market participants for similar instruments, which are representative of the fair value of the financial instruments on the date of the financial statements. Intense volatility in the foreign exchange and interest rate markets in Brazil has caused, in certain periods, significant changes in forward rates and interest rates over very short periods of time, generating significant changes in the fair value of swaps over a short period of time. The fair value recognized in its consolidated financial statements may not necessarily represent the amount of cash that the Company would receive or pay, as applicable, if the Company would settle the transactions on the consolidated financial statements date.

On December 31, 2007, unrealized gains on the Company’s derivative financial instruments amounted to US$0.9 million and unrealized losses amounted to US$10.2 million.

Useful lives of long-lived assets

Gerdau recognizes depreciation of its long-lived assets based on estimated useful lives, which are based on industry practices and prior experience and reflects economic lives of long-lived assets. Nevertheless, actual useful lives can vary based on technological update of each industrial plant. Useful lives of long-lived assets also affect impairment tests of those long-lived assets, when required.

Fair value of non-quoted financial instruments

Gerdau has entered into financial instruments in connection with some of the acquisitions conducted during 2005, 2006 and 2007, which involves commitments to acquire shares from minority shareholders of the acquired companies, or grant of put options to some minority shareholders to sell to the Company their shares. Such financial instruments are recorded at fair value on the Company’s balance sheet, and the determination of their fair value involves a series of estimates that can significantly impact the final outcome of such calculation. Gerdau estimates the fair value of the companies whose shares it is committed to acquire using EBITDA multiples of market traded similar companies. The Company believes such criteria is appropriate, in line with practices observed in the market and in conformity with authoritative technical literature to estimate fair market value of unquoted instruments.

Valuation of assets acquired and liabilities assumed in business combinations

During the last few years Gerdau has entered into various business combinations accounted for in accordance with FAS 141 "Business Combinations." Under FAS 141, the Company must allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets and liabilities acquired is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing such assets and liabilities and in determining their remaining useful lives. The Company generally engages third party valuation firms to assist in valuing the acquired assets and liabilities, particularly when they require specialized expertise. The valuation of these assets and liabilities is based on assumptions and criteria which include in some cases estimates of future cash flows discounted at the appropriate rates. The use of different assumptions used for valuation purposes including estimates of future cash flows or discount rates may have resulted in different estimates of value of assets acquired and liabilities assumed.

Results of Operations

General

The following discussion of the Company's results of operations for the years ended December 31, 2007, 2006 and 2005 is based on the Company's consolidated financial statements prepared in accordance with U.S. GAAP included elsewhere in this offering memorandum. References to increases or decreases in any year or period are made by comparison with the corresponding prior year or period, except as the context otherwise indicates.

The table below contains information for various income statement items, expressed as a percentage of net sales for each of the respective years:

	For the year ended December 31,		
	2007	**2006**	**2005**
Net sales	100%	100%	100.0%
Cost of sales	(75.1)%	(74.1)%	(73.8)%
Gross profit	24.9%	25.9%	26.2%
Operating expenses:			
Sales and marketing expenses	(2.1)%	(2.2)%	(2.3)%
General and administrative expenses	(6.6)%	(6.9)%	(5.2)%
Other operating income (expenses), net	(0.1)%	0.9%	(0.1)%
Operating income	16.0%	17.7%	18.6%
Financial expenses, financial income, foreign exchange gains and losses, net and gains and losses on derivatives, net	0.5%	1.2%	0.1%
Equity in earnings of unconsolidated companies, net	0.4%	1.0%	1.1%
Income taxes	(3.4)%	(3.7)%	(5.2)%
Minority interest	(3.4)%	(3.4)%	(2.0)%
Net income	10.2%	12.8%	12.6%

The table below contains information for various income statement items for the periods indicated:

	For the year ended December 31, (in millions of US$)		
	2007	**2006**	**2005**
Net sales	15,815	11,844	8,894
Cost of sales	(11,883)	(8,778)	(6,564)
Gross profit	3,932	3,066	2,330
Operating expenses:			
Sales and marketing expenses	(339)	(256)	(203)
General and administrative expenses	(1,041)	(821)	(466)
Other operating income (expenses), net	(18)	107	(8)
Operating income	2,534	2,096	1,653
Financial expenses, financial income, foreign exchange gains and losses, net and gains and losses on derivatives, net	79	148	13
Equity in earnings (losses) of unconsolidated companies, net	66	118	96
Income taxes	(530)	(439)	(465)
Minority interest	(532)	(409)	(179)
Net income	1,617	1,514	1,118

The table below contains information regarding the regional breakdown of the Company's shipments:

Shipments (in thousands of tonnes)	**2007**	**2006**	**2005**
Brazil	7,033.6	6,623.3	6,404.2
North America	6,941.1	6,039.4	5,727.3
Latin America (excluding Brazil)	2,248.6	1,545.7	728.9
Europe	935.7	681.2	—
Consolidated Total	17,159.0	14,889.6	12,860.4

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Net Sales

The Company's net sales totalled US$15,814.5 million in 2007, 33.5% greater than in 2006 (US$11,844.2 million). Of this amount, 42.1% (US$6,662.7 million) resulted from Brazilian operations, 36.7% (US$5,806.6 million) from North American operations, 10.9% (US$1,720.3 million) from Latin American operations (excluding Brazil) and 10.3% (US$1,624.9 million) from European operations. The increase in net sales was due primarily to the the increased demand in the steel market, mainly in Brazil and the consolidation of the companies acquired in 2007 and 2006. The consolidation impact of the companies acquired in 2007 represented an increase of 6.2% or US$736.0 million in net sales, primaring as a result of the Chaparral acquisition.

Gerdau S.A. Consolidated Net Sales by Geographical Region from which Shipment was originated (in millions of US$)	**2007**	**2006**	**Variation 2007/2006**
Brazil	6,662.7	5,354.2	24.4%
North America	5,806.6	4,464.2	30.1%
Latin America (excluding Brazil)	1,720.3	1,073.1	60.3%
Europe	1,624.9	952.7	70.6%
Consolidated Total	**15,814.5**	**11,844.2**	**33.5%**

The Company's consolidated sales in 2007 totaled 17.2 million tonnes, an increase of 15.2% as compared to 2006. Of this total, 41.0% resulted from transactions in Brazil and the other 59.0% resulted from transactions abroad. Excluding the acquisitions completed in the period under comparison, sales increased by 3.6%.

In Brazil, the strong demand in the main consumer markets of the Company's products resulted in a 15.5% increase in sales volumes, as compared to 2006, totaling 4.9 million tonnes in 2007. In order to meet the increased demand for steel in Brazil, exports from Brazil decreased 10.3%, totaling 2.1 million tonnes in 2007. Revenues generated by exports from Brazil totaled US$1.4 billion in 2007, including shipping revenues to associated companies and subsidiaries.

In the U.S. and Canada, sales totaled 6.9 million tonnes in 2007, an increase of 14.9% as compared to 2006. Excluding the effects of the acquisitions of Chaparral Steel and Sheffield Steel, sales volumes in 2007 were in line with 2006. The Latin American units, excluding Brazil, sold 2.3 million tonnes, an increase of 45.5% as compared to 2006. Excluding the volumes sold by the companies acquired in Venezuela and Mexico in 2007, and in Peru in 2006, sales volumes in 2007 were 7.7% greater than in 2006. In Europe, sales volumes totaled 936,000 tonnes in 2007, 37.4% greater than 2006, mainly due to the acquisition of GSB Aceros and Trefusa, in Spain.

The average net price of steel in 2007 was $921.7/tonne, a 15.9% increase from $795.5/tonne in 2006.

Cost of Sales and Gross Profit

Cost of sales increased from US$8,777.8 million in 2006 to US$11,882.8 million in 2007, representing an increase of 35.4%, primarily as a result of the increase in the cost of raw materials and as a result of acquisitions made during 2007. Of this amount, 37.3% (US$4,433.7 million) result from Brazilian operations, 40.1% (US$4,764.0 million) from North American operations, 11.9% (US$1,410.5 million) from Latin American operations (excluding Brazil) and 10.7% (US$1,274.6 million) from European operations. The consolidation impact of the companies acquired in 2007 represented an increase of 6.8% or US$600.4 million in cost of sales, mainly because of the Chaparral acquisition. The Company's gross margin was 24.9% in 2007, compared to 25.9% in 2006, primarily due to an increase in the cost of raw materials and also due to the appreciation of the Brazilian real against the U.S. dollar which reduced export margins. The gross profit increased by 28.2% to US$3,931.7 million in 2007, from US$3,066.4 million in 2006. The consolidation impact of the companies acquired in 2007 represented an increase of 4.4% or US$135.6 million in gross profit, mainly because of the Chaparral acquisition.

Operating Expenses

Operating expenses (sales and marketing, general and administrative expenses) increased 28.1% in 2007, compared to 2006. This increase in the amount of expenses was mainly due to an increase in sales volume during the year ended December 31, 2007. The ratio of operating expenses-to-net sales was 8.7%, compared to 9.1% in 2006, mainly due to gains in economies of scale. In 2007, consolidated operating expenses were US$1,380.0 million compared to US$1,077.6 million in 2006. The consolidation impact of the companies acquired in 2007 represented an increase of 3.1% or US$32.9 million in operating expenses, mainly because of Chaparral acquisition.

Other Operating Income (Expenses), Net

Other operating expense, net, amounted to US$17.8 million in 2007 compared to other operating income, net, of US$107.4 million in 2006. The amounts recorded under "Other operating (expenses) income, net" include mainly: (a) the effects of the recognition of IPI ("IPI – *Imposto sobre Produtos Industrializados*" - federal VAT) in the amount of US$58.5 million, related to reversal of credits for the year ended December 31, 2007, as a result of a recent change in the position of the Federal Supreme Court (STF), (b) the effects of recording at fair value the forward commitment to acquire a minority interest in Diaco which amounted to US$23.6 million and US$54.6 million (for the years ended December 31, 2007 and 2006, respectively), and (c) gains for tax credits recovered as result of final judicial decisions with respect to PIS and Cofins taxes which amounted to US$37.3 million for the year ended December 31, 2006.

Operating Income

Operating income was US$2,533.9 million in 2007, an increase of 20.9% when compared to US$2,096.2 million in 2006. Operating income increased in 2007 due to the improvement in sales and consolidation of the acquired companies. The consolidation impact of the companies acquired in 2007 represented an increase of 8.2% or US$172.6 million in operating income, mainly because of the Chaparral acquisition.

Financial Expenses, Financial Income, Foreign Exchange Gains and Losses, Net and Gains and Losses in Derivatives, Net

In the fiscal year 2007, net financial income (which consists of financial income, financial expenses, foreign exchange gains and losses and gains and losses from derivatives) totaled US$79.0 million, against net financial income of US$147.4 million in the previous year. This decrease is primarily due to the increase in financial expenses as a result of the increase in debts to the acquisitions made in 2007. This includes foreign exchange income in the amount of US$298.0 million in 2007 and US$132.9 million in 2006 which resulted from the appreciation of the Brazilian real in 2007.

Equity in Earnings (Losses) of Unconsolidated Companies, net

During 2007, equity income from unconsolidated companies amounted to US$66.3 million compared to US$118.1 million recorded in 2006. This decrease was primarily attributable to the metal spreads at the Company's flat rolled sheet joint venture (Gallatin Steel) which decreased from US$348 per tonne in the year ended December 31, 2006 to US$272 per tonne during the year ended December 31, 2007. Metal spreads in the flat rolled sheet industry are currently well below the metal spreads earned in the Company's long products business. During 2007, metal spreads in the flat rolled sheet segment were negatively impacted by the softness in end user demand, combined with customers normalizing their inventory levels from the high levels that were being carried at the beginning of 2007.

Provision for Taxes on Income

Provision for Taxes on Income increased 20.8% in 2007, mainly because the increase in Income before taxes and minority interest, in the amount of US$2,679.2 million in 2007 compared to US$2,361.7 million in 2006. The effective tax rate has been increased from 18.6% in 2006 to 19.8% in 2007 due to the decrease in foreign income having different statutory rates and also due to tax credits obtained in Spanish subsidiaries, in connection with the incorporation of an entity that occurred in the fourth quarter of 2006 in preparation for the acquisition of GSB Acero. The tax benefit from the incorporation transaction mentioned above is non-recurring.

Net Income

In 2007, the Company's consolidated net income amounted to US$1,616.5 million, 6.8% greater than US$1,513.8 million in 2006. This increase is mainly due to the acquisitions made during the period. Net margin (defined as net income divided by net sales) decreased from 12.8% in 2006 to 10.2% in 2007. The consolidation impact of the companies acquired in 2007 represented an increase of 6.4%, or $96.4 million, in operating income, mainly because of the Chaparral acquisition.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

Net Sales

The Company's net sales were US$11,844.2 million in 2006, 33.2% more than 2005 (US$8,894.4 million). Of this amount, 45.2% (US$5,354.2 million) came from operations in Brazil, 37.7% (US$4,464.2 million) from the North American units, 9.1% (US$1,073.1 million) from the South American companies (ex-Brazil) and 8.0% from the European operations. This performance reflects the improvements in the several operations in the different regions in which the Company is present as well as to the consolidation of units acquired in the last two years. Net sales of companies acquired in 2006 contributed an increase of 23.3%, or US$2,076.3 million, in net sales, the most significant being the acquisition of Corporación Sidenor.

Gerdau S.A. Consolidated **Net Sales by Geographical Region from which Shipment was originated** (in millions of US$)	**2006**	**2005**	**Variation 2006/2005**
Brazil	5,354.2	4,483.9	19.4%
North America	4,464.2	3,897.1	14.6%
South America (ex-Brazil)	1,073.1	513.4	109.0%
Europe	952.7	—	—
Consolidated Total	**11,844.2**	**8,894.4**	**33.2%**

The average net price of steel in 2006 was US$795.5/tonne, a 15.0% increase from US$691.6/tonne in 2005.

Cost of Sales and Gross Profit

Cost of sales increased from US$6,564.2 million in 2005 to US$8,777.8 million in 2006, representing an increase of 33.7%. This increase is mainly due to higher volume of shipments in 2006, the consolidation of acquired companies, as well as to the appreciation of the *real* against the U.S. dollar, which impacts significantly the cost of sales (as well as domestic sales) of the Brazilian subsidiaries when translated into U.S. dollars. Cost of sales of the companies acquired in 2006 represented an increase of 23.2% or US$1,521.7 million in the most significant being the acquisition of Corporación Sidenor acquisition. The Company's gross margin reached 25.9% in 2006, compared to 26.2% in 2005. This reduction is due to the increase in costs of the main raw materials used in the production process in 2006, such as iron ore, energy and others. Another factor which contributed to this reduction is the change in the mix of operating segments margins; Long Brazil, which historically has been the most profitable operating segment of the Company, has reduced its relative contribution to consolidated margin, mainly due to the increase of contribution from the North American and the Specialty Steel segments, as a result of the acquisition of business allocated to those segments during 2006. Gross profit reached US$3,066.4 million in 2006, compared to US$2,330.2 million in 2005, representing an increase of 31.6%, principally due to higher sales volume in 2006. Gross profit of the the companies acquired in 2006 contributed to an increase of 23.8%, or $554.7 million consolidated in gross profit.

Operating Expenses

Operating expenses (sales and marketing, general and administrative expenses) increased 61.0% in 2006, compared to 2005. The ratio of operating expenses-to-net sales was 9.1%, above the percentage of 7.5% in 2005. This increase is mainly due to the consolidation of the new companies not consolidated during the year ended December 31, 2005, to the enhanced long-term incentive program for Gerdau Ameristeel's employees (an expense of US$20.4 million in 2006 compared to an expense of US$3.0 million in 2005) and to the accounting of PIS/COFINS on payments of interest on capital stock (approximately US$19 million). In 2006, consolidated operating expenses were US$1,077.6 million against US$669.3 million in 2005. Operating expenses of the companies acquired in 2006 contributed to an increase of 37.3% or US$249.7 million in operating expenses, mainly because of the Corporación Sidenor acquisition.

Other Operating Income (Expenses), Net

Other operating income, net, amounted US$107.4 million in 2006 against other operating expense, net, of US$8.2 million in 2005. This positive result includes mainly the effects of recording at fair value the forward commitment to acquire a minority interest in Diaco which amounted to US$54.6 million in 2006 against US$7.5 million in 2005 and gains for tax credits recovered as result of non-appealable judicial decisions with respect to PIS and Cofins taxes which amounted to US$37.3 million.

Operating Income

Operating income was US$2,096.2 million in 2006, an increase of 26.8% when compared to US$1,652.7 million in 2005. Operating income increased in 2006 due to the consolidation of the acquired companies and the improvement in sales. Operating income increased 17.8%, or US$293.5 million in operating income as result of the companies acquired during 2006.

Financial Expenses, Financial Income, Foreign Exchange Gains and Losses, Net and Gains and Losses in Derivatives, Net

In the fiscal year 2006, net financial income (which consists of financial income, financial expenses, foreign exchange gains and losses and gains and losses from derivatives) totaled US$147.4 million, against net financial income of US$12.6 million in the previous year. This increase in financial income is mainly due to the foreign exchange gains of US$132.9 million in 2006 compared to US$57.9 million in 2005 and to the greater gain over financial investments in the period, basically due to its higher volume.

Equity in Earnings (Losses) of Unconsolidated Companies, net

During 2006, equity income from unconsolidated companies amounted to US$118.1 million compared to US$96.5 million recorded in 2005. A greater metal spread during the year generated better results at the joint ventures in the United States (Gallatin Steel, MRM Guide Rail and Bradley Steel Processors), which account for the majority of the equity income recorded on the Company's books. Although Gallatin shipments were essentially flat for the year ended 2006 when compared to 2005, higher metal spreads significantly increased during the year, following the general improvement in the North America steel market in 2006.

Provision for Taxes on Income

In 2006, income tax expenses were positively affected by the recognition of tax-deductible amortization of goodwill, which reduced this expense, in the amount of US$128.7 million in 2006 compared to US$76.7 million in 2005. The effective tax rate has been reduced from 26.41% in 2005 to 18.58% in 2006 due to the combined effects of benefit of deductible interest on equity paid to shareholders of US$75.4 million, benefit regarding tax deductible goodwill in the statutory books in the amount of US$128.7 million and to the non-recurrent tax credits obtained in the Spanish subsidiaries of US$38.7 million. The Company expects to continue to benefits from tax-deductible amortization of goodwill over the next eight years. Provision for taxes on income of the companies acquired in 2006 resulted in an increase of 32.2%, or US$24.7 million, in provision for taxes on income, mainly because of the Corporación Sidenor acquisition.

Net Income

In 2006, consolidated net income amounted to US$1,513.8 million, 35.5% greater than US$1,117.5 million in 2005. This increase reflects the greater volume shipped and strong demand in the civil construction sector. Net margin (defined as net income divided by net sales) increased from 12.6% in 2005 to 12.8% in 2006. The consolidation impact of the companies acquired in 2006 represented an increase of 23.2% or US$259.5 million in net income, mainly because of the Corporación Sidenor acquisition.

B. Liquidity And Capital Resources

The Company's main source of liquidity is cash generated by operating activities. In 2007, due to a number of acquisitions by the Company, debt financing became an important source of liquidity.

Cash Flows

Net cash generated from operating activities increased from 2006 to 2007 due to a decrease in net purchases of short-term investments classified as trading securities; in 2006, net purchases of trading securities short-term investments amounted to US$256.6 million and in 2007, net proceeds of such short-term investments amounted to US$910.0 million.

The Company paid dividends and interest attributed to shareholders' equity in the amount of $537.6 million in 2007.

Net cash provided by operating activities amounted to US$3,318.2 million, US$1,454.5 million and US$345.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, with a cumulative total for the three years of US$5,117.8 million mainly due to higher steel margins in 2007. Net cash provided by operating activities was one of the Company's main sources of liquidity.

Cumulative short and long-term financing amounted to US$9,932.8 million for the three-year period, with US$6,178.5 million in 2007, US$2,123.7 million in 2006 and US$1,630.6 million in 2005 towards the Company's liquidity requirements mainly due to financing of the acquisitions during 2007. Disposals of fixed assets, such as obsolete machinery and scrap equipment, generated cumulative losses of US$38.8 million for the years of 2007, 2006 and 2005.

The main uses of capital resources in 2007 were: US$1,322.6 million for investment in fixed assets, US$4,354,7 million for the acquisition of companies in North America, US$19.0 million for the acquisition of Sipar Aceros, US$25.9 million for the acquisition in Spain, US$258.8 million for acquisition in Mexico, US$42.9 million for acquisition in Dominican Republic, US$92.5 million for acquisition in Venezuela and US$10.5 million for acquisition in Brazil, US$537.6 million for payment of dividends and interest on capital and US$3,302.1 million for the repayment of debt. Capitalization on related party debt used to increase equity interest on Multisteel Business Holdings Corp. and exchange of shares whereby the Company acquired the ownership of Aplema, in exchange for its interest in Margusa – Maranhão Gusa S.A., also had a non-cash impact of US$72.0 million and US$36.6 million, respectively. In 2006 the main uses of capital resources were: US$1,022.2 million for investment in fixed assets, US$214.9 million for the acquisition of companies in North America, US$8.0 million for the acquisition of Sipar Aceros, US$86.9 million for the acquisition of Siderperú, US$204.0 million for the acquisition of Corporación Sidenor and US$146.8 million for the acquisition of GSB Acero, US$445.3 million for payment of dividends and interest on capital and US$1,467.1 million for the repayment of debt. In 2005 the main uses of capital resources were: US$690.9 million for investment in fixed assets, US$49.6 million for the acquisition of North Star in North America, US$16.7 million for the acquisition of Sipar Aceros, US$6.7 million for the acquisition of Diaco and $6.2 million for the acquisition of Sidelpa, US$420.5 million for payment of dividends and US$798.4 million for the repayment of debt. The acquisitions of Diaco and Sidelpa completed in 2005, also had a non-cash impact of US$53.6 million resulting from the release of funds previously maintained in trusts. Resources invested in fixed assets from 2005 to 2007 (US$3,035.8 million) were used to modernize the Company's industrial plants and subsidiaries and to upgrade technology. In 2007, capital resources were primarily used for Gerdau Açominas' expansion plan, of a new blast furnace, the second sinterization and a new continuous casting for blooms and also increasing in the melt shop capacity of the Gerdau Ameristeel's unit in Jacksonville, Florida, in the United States.

The Company's principal source of liquidity has traditionally consisted of cash generated from operating activities.

Between December 31, 2006 and December 31, 2007, net working capital (current assets less current liabilities) increased by US$739.3 million, from US$4,160.1 million in 2006 to US$4,899.4 million in 2007. Between December 31, 2005 and December 31, 2006, net working capital increased by US$865.5 million, from US$3,294.6 million in 2005 to US$4,160.1 million in 2006. The increase in 2007 was primarily due to the increase in financial investments as a result of the stronger cash flow in the period and due to the issuance of long term debt and the consolidation of assets of Chaparral, Gerdau GTL México and Siderúrgica Zuliana, acquired during 2007. The increase in 2006 was primarily due to the increase in financial investments, as a result of the stronger cash flow in the period and due to the issuance of long term debt and the consolidation of assets of Corporación Sidenor, Sheffield Steel and Siderperú, acquired during 2006.

Indebtedness

General

The Company's debt is used to finance investments in fixed assets, both in the modernization and technological upgrading of its plants and in the expansion of installed capacity, as well as working capital, acquisitions, and, depending on market conditions, short-term financial investments.

Total debt amounted to US$9,003.3 million at December 31, 2007 and US$4,638.6 million at December 31, 2006. Net debt (defined as short and long-term debt plus debentures less short-term investments, restricted cash and cash and cash equivalents) increased from US$1,656.6 million in 2006, to US$6,101.6 million in 2007. This amount is significantly greater than the amount at December 31, 2006 as it includes the financing raised for the payment of acquisitions carried out during the year, in particular Chaparral in September, 2007.

In 2007, net financial income (which comprises financial income, financial expenses, foreign exchange gains and losses and gains and losses on derivatives) amounted to US$79.0 million compared to US$147.4 million in 2006. This includes foreign exchange income in the amount of US$298.0 million in 2007 and US$132.9 million in 2006 which resulted from the appreciation of the Brazilian *real* during these years.

Gerdau has provided a surety to Dona Francisca Energética S.A., in financing contracts which amount to R$138.0 million (equivalent of US$77.9 million at period-end exchange rate). Under the surety, Gerdau guarantees 51.82% (US$40.4 million) of such debt. The guarantee may be enforced by lenders in the event of default by Dona Francisca Energética, S.A.

The following table profiles the Company's debt in the years ended December 31, 2007, 2006 and 2005 (in thousands of US$):

	2007	2006	2005
SHORT TERM:			
Short-term debt:			
Debt denominated in *reais*	310,031	88,840	7,896
Debt denominated in foreign currency	452,733	414,459	303,488
Total short-term debt	762,764	503,299	311,384
Current portion of long-term debt:			
Debt denominated in reais	116,084	121,562	39,947
Debt denominated in foreign currency	539,145	440,259	215,231
Total current portion of long-term debt	655,229	561,821	255,178
Debêntures (Recorded as "Other Current Liabilities")	21,524	1,371	1,162
Short-term debt plus current portion of long-term debt and debentures	1,439,517	1,066,491	567,724
LONG TERM:			
Long-term debt, less current portion:			
Debt denominated in reais	1,249,706	676,996	349,567
Debt denominated in foreign currency	5,804,210	2,451,872	1,883,464
Total long-term debt	7,053,916	3,128,868	2,233,031
Debentures	509,880	443,280	414,209
Long-term debt plus debentures	7,563,796	3,572,148	2,647,240
Total debt plus debentures, current portion of long-term debt and parent company	9,003,313	4,638,639	3,214,964
Short-term investments, restricted cash, cash and cash equivalents	2,901,756	2,982,062	2,303,413
Net long-term debt plus debentures and current portion of long-term debt	**6,101,557**	**1,656,577**	**911,551**

On December 31, 2007, the Company's total debt plus debentures amounted to US$9,003.3 million. Of this balance, US$2,207.2 million (24.5%) was denominated in Brazilian reais and US$6,796.1 million (75.5%) in foreign currency.

Short-term debt plus current portion of long-term debt and debentures

As of December 31, 2007, the Company's short-term debt amounted to US$762.8 million. Of this total, $310.0 million related to financing in reais and US$452.8 million in foreign currencies. In 2007, short-term debt plus the current portion of long-term debt and debentures amounted to US$1,439.5 million, representing an increase of 35.0% relative to 2006. This increase is mainly resulted from loans for the acquisition of companies.

Long term

Long-term debt including debentures amounted to US$7,563.8 million as of December 31, 2007. Of this total, US$7,053.9 million represented loans obtained from financial institutions and from issuance of debt in the market, of which US$1,249.7 million was denominated in *reais* and US$5,804.2 million in foreign currency. Of total long-term debt, US$509.9 million represents debentures in *reais*.

Approximately 33.4% of the US$6,343.4 million of long-term loans denominated in foreign currency, including the current portion of long-term debt, was contracted by the Company and its Brazilian subsidiaries and 66.6% by the Company's foreign subsidiaries.

The Company has entered into financial agreements in order to finance acquisitions. The most significant financial agreements contracted in 2006 and 2007 are described in "—Financing Agreements."

In order to protect the Company from changes in interest rates on its foreign currency debt incurred in Brazil and Latin America, Gerdau entered into interest rate swap operations whereby it pays U.S. dollars, generally accruing interest at fixed rates, and receives U.S. dollars accruing interest at LIBOR rates. Such swaps had a notional value of US$350.1 million as of December 31, 2007. These derivative instruments are not contracted by the same entities, and aim at reducing each entity's exposure to changes in interest rates, or to assure that the denominations of inflows match contracted debt outflows.

The Company has also swaps in which it receives a variable amount in Japanese yen based on Japanese LIBOR, and pays a fixed interest rate in US dollars. A reverse swap was entered into, in which it receives a fixed interest rate in US dollars and pays a variable interest rate based on Japanese LIBOR. In December 2007, the total amount swapped was US$524.9 million (notional amount).

Also, in order to reduce its exposure to changes in the fair value of its Senior Notes, Gerdau Ameristeel entered into interest rate swaps whereby it receives a fixed interest rate and pays a variable interest rate based on LIBOR. In December 2007, the total amount swapped was US$200 million. Cash flows from operations may be used to service this debt. However, there can be no assurance that cash flows from operations will be sufficient to service foreign currency debt obligations, denominated principally in U.S. dollars. It is thus possible that exchange rate fluctuations may have a material adverse effect on the Company's business, financial condition and results of operations. See Item 3 - Risk Factors. As of December 31, 2007, the maturity profile of the Company's long-term debt with financial institutions, including debentures, is as follows:

Gerdau S.A. Consolidated Amortization	(in millions of US$)
2009	852.8
2010	619.4
2011	1,632.1
2012	1,567.5
After 2012	2.892,0
Total	**7,563.8**

The amounts described above include the Aços Villares debentures that mature in 2010 (US$173.9 million) and a further five Gerdau S.A. debenture issues (US$336.0 million) with different maturity dates after 2010.

Financial Agreements

10-year bonds

On November 7, 2007, Gerdau Ameristeel concluded an offering of its common shares, totaling approximately US$1.55 billion. The funds raised were allocated for the repayment of a portion of the loans for the acquisition of Chaparral. The Company bought approximately 84 million of the common shares in connection with this offering in order to maintain its interest of approximately 66.5% in Gerdau Ameristeel. In order to raise funds for the payment of the common shares purchased, the Company, through the Issuer, issued, on October 22, 2007, ten-year bonds in the amount of US$1.0 billion with a maturity date of October 20, 2017. The bonds being offered hereby constitute a further issuance of these 10 year bonds. The bonds are guaranteed by the Company, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The transaction was classified by Standard & Poor's and Fitch Ratings as BBB-.

Financing for Chaparral Acquisition

On September 10, 2007, Gerdau Ameristeel acting through its wholly-owned subsidiaries Gerdau Ameristeel US Inc. and GNA Partners, GP entered into a US$2.75 billion (equivalent to R$4.87 billion at December 31, 2007) term loan facility comprised of (i) a five-year tranche of US$1.25 billion (equivalent to R$2.21 billion at December 31, 2007), (ii) a six-year tranche of US$1.0 billion (equivalent to R$1.77 billion at December 31, 2007), and (iii) a five-year tranche of US$500.0 million (equivalent to R$885.6 million at December 31, 2007). The term loan facility is guaranteed by us, Gerdau Ameristeel, Gerdau Açominas, Gerdau Açominas Overseas Ltd., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A. The interest accrued in financing is LIBOR, plus a rate that varies from 0.87% to 1.5% as a function of the Company's rating at the time of a specific tranches.

Senior Liquidity Facility

On November 1, 2006, the Company entered into a senior liquidity facility aimed at improving its liquidity and better managing its exposure to market risks. This facility helps the Company minimize its exposure to a reduction in the liquidity in financial and capital markets and is part of a Liability Management Program being implemented by the Company. The US$400.0 million facility is available to Gerdau's subsidiary GTL Trade Finance Inc. and is guaranteed by the Company, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The facility has an availability period of three years and a two-year payment period as of the effective disbursement date. Costs in connection with the facility are a maintenance fee of 0.27% per annum and interest, which accrues at the rate of LIBOR + 0.30% to 0.40% per annum when actually drawn. At December 31, 2007, no amounts have been drawn under this facility.

NEXI II

On March 24, 2006, Gerdau Açominas S.A. entered into a US$267.0 million Yen Equivalent Term Loan Facility with Citibank, N.A., Tokyo Branch. The term loan is insured by Nippon Export and Investment Insurance (NEXI) under its Overseas Untied Loan Insurance facility, and is guaranteed by the Company. The facility has a ten-year term and the annual interest rate is LIBOR plus 0.30%. On December 31, 2007, the total funds from this facility had been already drawn. The funds are being used to finance part of the project to expand production capacity to 4.5 million tonnes, including the following sub-projects: raw material stock yard, pan furnace, billet inspection line, shipping and rail lines, water and gas pipelines, firefighting system, turbo generator blower, boiler, computer technology, management and technical assistance. At the same time this loan facility was contracted, the Company carried out a swap operation to protect the Yen exchange rate in relation to the U.S. dollar.

Sinosure

On October 14, 2005, Gerdau Açominas entered into a US$201.0 million Buyer's credit facility insured by China Export & Credit Insurance Corporation (Sinosure). The facility was funded by BNP Paribas and Industrial and Commercial Bank of China (ICBC) and was meant to finance 85.0% of the commercial contracts signed between Gerdau Açominas, the Chinese company Minmetals Development Co. Ltd., China Metallurgical Construction (Group) Corporation and certain other Chinese corporations, for the construction of a blast furnace, a coke oven plant and a sinter plant for Gerdau Açominas' capacity expansion plan through 2007. The facility matures 12 years from the date they entered into the agreement, and the interest rate payable is equal to LIBOR plus 0.675% per annum. The facility is guaranteed by the Company.

With respect to the Sinosure financing, a US$50.0 million (equivalent to R$88.6 million at December 31, 2007) Commercial Loan Facility was entered into between Gerdau Açominas and BNP Paribas on June 15, 2005 to finance the remaining 15% of the aforementioned commercial contracts and 100.0% of the Sinosure Insurance Premium. The tenor of this facility is five years and the interest rate payable is LIBOR plus 0.20% per annum, with a local interest fee payable of 1.30% per annum. This facility is guaranteed by the Company. This loan has been totally utilized. The funds were used to finance 15% of the new blast furnace, coke production system and sinterizing system for the Ouro Branco Steel Mill and also 100% of the Sinosure credit insurance associated with the projects.

Guaranteed Perpetual Senior Securities

On September 15, 2005, the Company issued US$600.0 million 9.75% interest bearing Guaranteed Perpetual Senior Securities. Such securities are guaranteed by Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau. The securities do not have a stated maturity date but must be redeemed by the Company in the event of certain specified events of default (as defined in the terms of the securities) which are not fully under the control of the Company. The Company has a call option to redeem these securities at any time starting 5 years after the placement date which occurred in September 2010. Interest payments are due on a quarterly basis, and each quarterly payment date after September 2010 is also a call date.

NEXI

In December 2004, the Company, through Gerdau Açominas entered into a US$240.0 million financing agreement. ABN AMRO Bank led and structured the transaction which was funded by ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi Ltd. and UFJ Bank Limited. The full term of the loan is seven years with a grace period of two years and five years' amortization. NEXI, covers 97.5% of the political risk and 95.0% of the commercial risk. The maintenance fee to keep the commitment amount of the credit facility available is 0.25% per year. The interest rate payable is LIBOR + 0.5%. The agreement has a two-year availability period from the contract signature date, and semi-annual amortization.

Senior Notes and Senior Secured Credit Facility

On June 27, 2003, Gerdau Ameristeel refinanced most of its outstanding debt by issuing US$405.0 million of 10 3/8% Senior Notes, with maturitity on July 15, 2011 and a discount of 2% from face value. Gerdau Ameristeel can call these senior notes at any time at a redemption price that ranges from 105 3/8% to 100 %, depending on the year the call is made. Gerdau Ameristeel also entered into a US$350.0 million senior secured credit facility with a syndicate of lenders. This senior credit facility is guaranteed by a promissory note in the amount of US$351 million issued by Gerdau Ameristeel.

In October 2005, Gerdau Ameristeel amended and restated its senior secured revolving credit facility. The facility presently had a five-year term and the amendments also increased the existing revolving credit line from US$350.0 million to US$650.0 million and expires on October 31, 2010.

The Company's subsidiaries in North America have a US$650 million revolving line of credit that matures on October 28, 2010 and can be drawn on in U.S. dollars (at a rate of LIBOR + 1.0% to 2.0% per year or U.S. Prime/FED Funds plus -0.5% to +0.5% per year) or in Canadian dollars (at a rate of BA (Bankers Acceptance) plus 1.0% to 2.0% per year). The maintenance fee to keep the subscribed amount available under the line of credit varies from 0.25% to 0.35% per year. This line of credit is distributed to the companies in proportion to the working capital of each North American subsidiary. This line of credit was not being utilized on December 31, 2007. The subsidiaries' inventory and accounts receivable were given as collateral for this line of credit.

The proceeds of these issuances and credit facilities were used to repay existing debt under several lending arrangements and to pay costs associated with the refinancing.

Following the refinancing, the principal sources of the Company's liquidity are cash flow generated from operations and borrowings under its new senior secured credit facility.

Description of Restrictive Covenants

Overview

The Company is subject to limitations on debt levels, the granting of encumbrances on its properties and the payment of dividends under certain circumstances, in accordance with the terms of its debentures, international loans and its loans from the Brazilian National Bank for Economic and Social Development (BNDES). These limitations are applicable to the Guaranteed Perpetual Senior Securities and to the refinancing agreements for Gerdau Ameristeel (senior notes and senior secured credit facility) as well as trade finance lines, and bank loans. Most of the financial agreements contracted by the Company, including ECA operations, Senior Liquidity Facility and Export Receivables Notes, have covenants based on certain limits such as (i) Total Debt divided by Earnings before Interest, Taxes, Depreciation and Amortization - EBITDA (defined as gross profit minus general, sales and marketing and administrative expenses plus depreciation and amortization) required to be less than four times and (ii) EBITDA divided by Net Financial Expenses Excluding Monetary and Foreign Exchange Variations required to be higher than three times.

All the covenants mentioned above are calculated based on consolidated financial statements prepared according IFRS. At December 31, 2007, the Company was in full compliance with its financial covenants under its financial instruments.

Brazilian Debentures

The outstanding series of debentures prohibit the payment of dividends by the Company in excess of 30% of adjusted net income, if such distributions cause the Company’s long-term liabilities to exceed its shareholders’ equity by a factor of more than 50.0% and the Company’s current assets to fall below its current liabilities.

BNDES Financing

The terms of the Company’s BNDES debt require that the current liquidity ratio (consisting of current assets divided by current liabilities of Metalúrgica Gerdau S.A. consolidated) be at least 0.8, that total debt divided by EBITDA of the last 12 months be less or equal to four and that EBITDA divided by net financial expenses be at least 3.5, based on Metalúrgica Gerdau S.A.’s consolidated financial information.

Gerdau Ameristeel Senior Notes and Senior Secured Credit Facility

The Gerdau Ameristeel senior secured credit facility contains restrictive covenants that limit its ability to engage in specified types of transactions without the consent of the lenders. Limitations apply to incurring additional debt, issuing redeemable and preferred stock, paying dividends on its common shares, selling or otherwise disposing of certain assets and entering into mergers or consolidations. The indenture governing the Senior Notes permits Gerdau Ameristeel and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness, subject to certain limitations.

As of December 31, 2007, the Company was in compliance with all contract covenants.

Derivatives, Off-Balance Sheet Arrangements and Contractual Obligations

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than as described below.

Guarantees Granted

The Company has guaranteed 51.8% of the debt of Dona Francisca Energética S.A., an unlisted corporation that owns and operates a hydroelectric power plant, known as Usina Hidrelétrica Dona Francisca. The debt amounts to R$71.5 million (US$40.4 million) at December 31, 2007. The percentage of this guarantee corresponds to its 51.8% stake in Dona Francisca Energética.

In addition, the Company has issued guarantees to Banco Gerdau S.A. for US$30.4 million relating to loans by the bank to its customers for purchasing its products, through Credit FCG (Financing Customers Gerdau).

The Company is exposed to a number of market risks, mainly foreign exchange and interest rate variations. Market risk is the reduction of the fair value of investments resulting from adverse changes in market prices and foreign exchange and interest rates. In order to manage and reduce the effects of these rate variations, the Company undertakes transactions with derivatives and other financial instruments. The Company has established policies and procedures to analyze and monitor risks, as well as to regulate the approval of and monitor the disclosure of information and relating to its financial activities with derivative instruments.

The Company is also exposed to foreign exchange variations since practically all of its revenues that are generated by subsidiaries outside in the U.S. are expressed in the local currency of the respective subsidiary, mainly in Brazilian reais, while a significant portion of the Company's indebtness is expressed in, or indexed to, the U.S. dollar.

For purposes of reducing its exposure to interest rate variations on its debt in foreign currency incurred in Brazil, the Company entered into interest rate swap agreements through which it undertakes the payments in U.S. dollars, generally based on fixed interest rates, and receives amounts in U.S. dollars, subject to interest rates based on the LIBOR rate. As regards to other swap transactions, the Company receives fixed interest rates based on the amounts in U.S. dollars and undertakes the payment at variable interest rates based on the LIBOR rate. The fair value of these swap transactions, which represents the amount that would be received if the contract were finalized on December 31, 2007, is a loss of US$3.3 million. These derivative instruments are not contracted by the same institutions and have the objective to reduce the exposure of the institution to interest rate variations or assure that the inflow of funds is equivalent to the outflow of funds in connection with the debt assumed.

The Company also entered into currency swap agreements through which it receives variable amounts in Japanese currency based on the Japanese interbank market interest rate and the Company pays fixed interest rates in U.S. dollars. The Company entered into a reverse swap agreement through which it receives fixed interest rate in U.S. dollars and pays variable interest rates based on the Japanese interbank market interest rates. These swap transactions had a fair value of US$0.4 million on December 31, 2007.

Also in order to reduce the Company's exposure to the variations in the fair value of the Senior Notes, Gerdau Ameristeel entered into interest rate swap agreements through which the company receives fixed interest rates and pays variable interest rate based on LIBOR. These swap transactions had a fair value of US$(4.8) million on December 31, 2007.

Empresa Siderúrgica del Peru S.A.A. entered into interest rate swap agreements through which the company receives variable interest rate based on the LIBOR rate for a period of three months and pays fixed interest rate in U.S. dollars. These swap transactions had a fair value of US$(1.4) million on December 31, 2007.

Capital Expenditures

Capital Expenditures in 2005

The Company invested US$887.6 million in the acquisition of new businesses as well as new property, plant and equipment, increases in installed capacity and in technological upgrades of its units in Argentina, Brazil, Canada, Chile, Colombia, United States and Uruguay in 2005. The main investments during the year are described below.

Brazil

Capital expenditures at the Brazilian units amounted to US$568.4 million in 2005. A total of US$91.2 million was invested in the completion of the São Paulo mill melt shop as well as other improvements at the same facility. The Company invested US$227.0 million at the Ouro Branco mill, mainly the project to increase installed capacity by 1.5 million tonnes of liquid steel and expected to come on stream in 2007 together with technological upgrades of equipment. Another important investment of US$48.0 million in the modernization of equipment was made in the Cosigua mill. Other amounts are related to smaller improvements and technological upgrades at other facilities in Brazil.

Latin America (except Brazil)

The South American units spent US$183.4 million on capital expenditures in 2005, compared to US$6.8 million in 2004. The Company paid US$115.6 million for the acquisition of Diaco and Sidelpa, in Colombia, and US$16.7 million for an additional stake in Sipar, Argentina.

Canada and the United States

Gerdau Ameristeel spent US$135.9 million on capital projects and acquisitions in 2005, compared to US$424.1 million in 2004. Major capital investments included improved warehousing facilities at the Whitby, Ontario unit (US$10.8 million), a new reheating furnace at the Sayreville, New Jersey mill (US$10.0 million), and the purchase of shredders for the Jacksonville, Florida (US$5.0 million) and the Jackson, Tennessee (US$6.1 million) facilities.

Capital Expenditures in 2006

The Company invested US$2,053.2 million in 2006 in the acquisition of new businesses as well as new property, plant and equipment, increases in installed capacity and in technological upgrades of its units in Argentina, Brazil, Canada, Chile, Colombia, Peru, Spain, United States and Uruguay. The main investments, considering the effective amount paid (cash flow), during the year are described below.

Brazil

Capital expenditures at the Brazilian units amounted to US$718.2 million in 2006. A total of US$77.4 million was invested in the completion of the São Paulo rolling mill that started operating in October 2006 as well as other improvements at the same facility. The Company invested US$374.6 million at the Ouro Branco mill, mainly to increase installed capacity by 1.5 million tonnes of liquid steel and expected to come on stream in 2007 together with technological upgrades of equipment. Another important investment of US$38.4 million was made in the modernization of equipments at the Cosigua mill. Other amounts are related to smaller improvements and technological upgrades at other facilities in Brazil.

Latin America (except Brazil)

The Latin American units spent US$255.6 million on capital expenditures and acquisitions in 2006, compared to US$153.4 million in 2005. The Company paid US$203.1 million for the acquisition of Siderperú, in Peru. The Company invested US$13.8 million in Gerdau AZA, US$18.4 million in Diaco and Sidelpa, US$12.4 million in Gerdau Laisa and US$6.6 million in Sipar for the technological upgrades in equipment.

Canada and the United States

Gerdau Ameristeel spent US$537.6 million on capital projects and acquisitions in 2006, compared to US$185.5 million in 2005. The most significant projects include improvements to the bar mill finishing end at the Whitby, Ontario mill that commenced production in the fourth quarter of 2006, a new melt shop for the Jacksonville, Florida mill, scheduled for commissioning during the second quarter of 2007, a finishing end upgrade at the Cartersville, Georgia mill that started production in the second quarter of 2006, construction of a new rebar fabrication facility in King George, Virginia that began operations in the fourth quarter of 2006, and a new scrap shredder at the Jackson, Tennessee mill which is expected to begin full operation in the first quarter of 2007.

The Company paid US$194.7 million for the acquisition of Sheffield Steel, Fargo Iron and Metal and Callaway Building Products in 2006.

Europe

In 2006, Gerdau invested US$541.8 million in capital projects and acquisitions in Europe. The Company paid US$340.2 million for the acquisition of a 40% stake in Corporación Sidenor in January of 2006 and US$157.0 million for the acquisition of GSB Acero in December.

Capital Expenditures in 2007

The Company invested US$6.3 billion in 2007 in the acquisition of new businesses as well as new property, plant and equipment, increases in installed capacity and in technological upgrades of its units in Argentina, Brazil, Canada, Chile, Colombia, Peru, Spain, United States and Uruguay. The main investments, considering the effective amount paid (cash flow), during the year are described below.

Brazil

Capital expenditures at the Brazilian units amounted to US$1,046.1 million in 2007. The Company invested US$721.2 million at the Ouro Branco mill, mainly to increase installed capacity by 1.5 million tonnes of liquid steel, and also for technological upgrades of equipment. The remaining capital expenditures were expended on smaller improvements and technological upgrades at other facilities in Brazil.

Latin America (except Brazil)

The Latin American units spent US$631.0 million on capital expenditures and acquisitions in 2007, compared to US$255.6 million in 2006. The Company paid US$258.8 million for the acquisition of Tultitlán, in Mexico, US$114.9 million for the acquisition of Industrias Nacionales (INCA) in Dominican Republic and US$92.5 million for the acquision of Siderurgica Zuliana (Sizuca), in Venezuela. The remaining capital expenditures were expended on improvements and technological upgrades at Latin Americans units.

Canada and the United States

Gerdau Ameristeel spent US$4.5 billion on capital projects and acquisitions in 2007, compared to US$531.6 million in 2006. The Company paid US$4.2 billion for the acquisition of Chaparral Steel, in Unites States. Other US$53.8 million were expended on acquiring a downstream operation, Enco Materials, in Unites States (US$46.0 million) and smaller fab shops units (Re-Bars and D&R Steel), both located in the Unites States. The remaining capital expenditures were expended on improvements and technological upgrades at North-Americans units.

Europe

In 2007, Gerdau invested US$164.4 million in capital projects and acquisitions in Europe, compared to US$541.8 million in 2006. The Company paid US$25.8 million for the acquisition of Trefilados de Urbina (Trefusa), a specialty steel drawing facility, in Spain. US$140.0 million were spent in the reorganization of the industrial processes and reallocation of certain product lines in order to increase productivity and maximize the use of the industrial equipments in Sidenor.

Complementary information regarding these investments is available under “Principal Capital Expenditure Currently in Progress” below.

Principal Capital Expenditures Currently in Progress

Gerdau approved, for the period between 2008 through 2010, approximately US$6.4 billion in expansions and improvements in mills in Brazil and abroad. Of this total, 70% will be invested in mills in Brazil and the balance in mills abroad. Of the amount to be invested over the next three years, approximately 59% will be used in maintenance and operating improvements (includes replacement of the depreciation of approximately US$900 million) and the remaining 41% will be used in the expansion of the installed capacity.

The following tables contain the breakdown of the investment plan in US$ millions and in thousand tonnes by region:

(in millions of US$)*	2008	2009	2010	TOTAL
BRAZIL	1,105	1,955	1,375	4,435
ABROAD	405	853	681	1,939
North America	183	338	264	785
Latin America	141	416	301	859
Europe	81	99	116	295
TOTAL	1,510	2,808	2,056	6,374

* This amount does not include acquisitions

(in thousands of tonnes)	Current Capacity	2008	2009	2010	New Capacity*
BRAZIL					
Crude steel	11,435	105	20	1,105	12,665
Rolling products	6,800	100	325	2,195	9,420
NORTH AMERICA					
Crude steel	9,955	—	—	225	10,180
Rolling products	10,350	—	—	90	10,440
LATIN AMERICA					
Crude steel	2,265	630	165	955	4,015
Rolling products	2,610	265	225	580	3,680
EUROPE					
Crude steel	1,150	—	150	100	1,400
Rolling products	1,220	—	95	—	1,315
TOTAL					
Crude steel	24,805	735	335	2,385	28,260
Rolling products	20,980	365	645	2,865	24,855

* Installed capacity of Quanex Corporation, Corsa Controladora and SJK Steel Plant Limited (joint venture with Kalyani Group) are not included.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.

Due to the specialized nature of its business, Gerdau Aços Especiais is the only unit that has been investing on a continuos basis in technological upgrading and in research and development (R&D). This unit is active in the automotive segment and maintains an R&D department responsible for new products and the optimization of existing processes. These product development projects are headed by specialists who use quality tools such as “Six Sigma”, statistical procedures for improving the assessment of process variables, and “Quality Function Deployment”, a methodology through which the technicians are able to identify the full spread of customer requirements. In the other plants, production and quality teams are responsible for developing new products to meet customer and market needs.

As is common with mini-mill steel makers, Gerdau usually acquires technology in the market, since steel-making technology is readily available for purchase.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment used by the Company. Such suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment.

D. TREND INFORMATION

The Company has experienced strong demand for its steel products in the first quarter of 2008, especially in Brazil, which has resulted in higher prices for the Company's products and high utilization of the industry's production capacity. Due to robust demand for steel in Brazil, prices in the first quarter of 2008 increased 12% to 15%. The Company believes that the overall outlook for the steel industry in Brazil for the remainder of 2008 is favorable, and demand for the Company's products and for the steel industry in general will continue to grow and remain strong through the second half of 2008, possibly resulting in further increases in prices for steel products in Brazil during such period.

E. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

The Company has guaranteed 51.82% of the debt of Dona Francisca Energética S.A., an unlisted corporation that owns and operates a hydroelectric power plant, known as Usina Hidroelétrica Dona Francisca. The debt amounts to R$71.5 million (equivalent to US$40.4 million at the year-end foreign exchange rate). The percentage of this guarantee corresponds to its 51.82% stake in Dona Francisca Energética. In addition, the Company has issued guarantees to Banco Gerdau S.A. for US$30.4 million relating to loans by the bank to its customers for purchasing its products.

Disclosure of Contractual Obligations

The table below sets forth the Company's contractual obligations at December 31, 2007.

	Payments due by period				
Contractual obligations (in thousands of US$)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations (1)	7,709,145	655,229	1,319,820	3,068,426	2,665,670
Debentures (1)	531,404	21,524	152,375	131,131	226,374
Interest payments (2)	3,689,094	507,648	830,479	659,532	1,691,435
Operating lease obligations (3)	72,889	12,269	19,482	15,762	25,376
Capital expenditures (4)	236,100	177,075	41,318	17,707	—
Unconditional purchase obligations (5)	171,839	171,839	—	—	—
Pension funding obligations (6)	378,289	56,222	46,274	57,882	217,911
Commitment to acquire shares of subsidiaries (7)	107,194	107,194	—	—	—
Put option granted to Santander Group on Corporación Sidenor acquisition (8)	266,176	—	—	266,176	—
Total	13,162,130	1,709,000	2,409,748	4,216,616	4,826,766

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(1) Total amounts are included in the December 31, 2007 consolidated balance sheet. See Note 15 Long-term Debt and Debentures in the consolidated financial statements. The amounts in the table above do not include short-term debt amounting to US$762,764.
(2) Interest payments include amounts related to the perpetual bonds, which do not have a final maturity date. For the purpose of interest calculations, interest payments on the perpetual bonds were considered for 30 years.
(3) Includes minimum lease payment obligations for equipment and real property leases in effect as of December 31, 2007.
(4) Purchase obligations for capital expenditures correspond to and are related to capital projects. The full amount relates to capital projects agreements where Gerdau has irrevocably committed with suppliers to acquire equipment. As the equipment had not been received by December 31, 2007, the corresponding liability has not yet been recorded in its current financial statements.
(5) The majority of other purchase obligations are for inventory and operating supplies and expenses used in the ordinary course of business.

(6) Pension funding obligations are included as per actuarial computations made by third party actuaries.
(7) During 2005, all conditions precedent related to the acquisition agreement of Diaco were met. As a consequence, Diaco is being consolidated in the Company's financial statements. Nevertheless, the Company has committed to acquire the remaining 40.0% of Diaco shares currently held by the former owners. Final maturity of this commitment is December 2012, however, the Company decided to commit to acquire these shares in January 2008. The fair value of this commitment is recorded in its financial statements. See Note 28 to the consolidated financial statements.
(8) During 2006, the Company entered into an agreement to acquire an interest of 40.0% of Corporación Sidenor, but also granted a put option to Santander Group, which acquired another stake of 40% of Corporación Sidenor. According to this put option, Santander Group has the option to sell its interest in Corporación Sidenor to the Company five years after the completion of the acquisition. See Note 21 to the consolidated financial statements.

RECENT DEVELOPMENTS

Recent Acquisitions

On January 14, 2008, the Company purchased, through its subsidiary Gerdau GTL Spain, for US$107.2 million, approximately 40.2% of Diaco's capital of minority shareholders. As a result of the purchase, the Company now indirectly owns 97.4% of Diaco's capital stock.

On February 15, 2008, the National Electric Energy Agency, or the ANEEL, transferred to the Gerdau group a concession to generate electricity from the São João – Cachoeirinha hydroelectric complex, composed of two hydroelectric power plants to be built in the State of Paraná. The project will have 105 MW of installed power and construction should be concluded in 2011. The estimated investment is approximately US$173 million. The energy produced will be utilized to power the Company's own units.

On February 21, 2008, the Company signed a purchase and sale agreement for the acquisition of a 50.9% interest in Cleary Holdings Corp., which controls metallurgical coke production units and coke-producing coal reserves in Colombia. The company has a current annual capacity to produce 1.0 million tonnes of metallurgical coke per year and, according to estimates, it has 20 million tonnes in coke producing coal reserves. The amount to be disbursed in this acquisition is US$59 million, but the agreement is still subject to the approval of the Columbian market's regulatory bodies. All of its production is earmarked for exporting, mainly to the U.S., Peru, Canada and Brazil.

On February 27, 2008, the Company announced the conclusion of the acquisition of a 49% interest in Corsa Controladora, S.A. de C.V., with headquarters in Mexico City, Mexico. Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and controls two steel-products distributors. Located in the city of Tlalnepantla, in the metropolitan Mexico City, Açeros Corsa is a mini-mill that produces long steel (light commercial extruded shapes), with annual installed capacity of 150,000 metric tonnes of crude steel and 300,000 metric tonnes of rolled products. A total of US$110.7 million was disbursed in this transaction, after adjustments related to working capital. The Gerdau Group and Corsa Controladora's shareholders also formed a joint venture referred to as Estructurales Corsa S.A.P.I de C.V. with the purpose of implementing a project for the production of structural extruded shapes in Mexico. The capital contributions to the joint venture will be shared equally for a total of US$120 million. The new unit will have an installed capacity of 1.0 million tonnes of crude steel and 700,000 tonnes of rolled steel per year and will involve investments estimated at US$400 million. The new industrial plant will begin operations in 2010.

On April 2, 2008, the Company's subsidiary, Gerdau Ameristeel, announced the acquisition, through the joint venture Pacific Coast Steel (PCS), of Century Steel, Inc., located in Las Vegas, Nevada, which specializes in the manufacturing and installation of structural steel. Gerdau Ameristeel paid US$152 million for all of Century Steel's assets and announced that it will pay US$68 million to raise its equity interest in the PCS Joint Venture to 84%.

On April 16, 2008, the Issuer contracted a bridge loan with ABN Amro Bank N.V., HSBC Securities (USA) Inc. and J.P. Morgan Securities Inc., in the aggregate amount of US$1.0 billion. The Company, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços are guarantors of this loan. The loan bears interest at a rate of LIBOR + 0.85% per annum and matures within six months as of the disbursement of the proceeds.

In addition, also on April 16, 2008, the Company's subsidiary Gerdau US Financing Inc. contracted a bridge loan with Citigroup Global Markets Inc., in the aggregate amount of US$540.0 million. The Company, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços, Gerdau Delaware, Inc. and Gerdau Macsteel Holdings Inc. are guarantors of this loan. The loan bears interest at a rate of LIBOR + 1.25% per annum and matures within 45 days as of the disbursement of the proceeds.

On April 21, 2008, the Gerdau group entered into a strategic partnership with Corporación Centroamericana del Acero, a steel producer located in Central America. As a result of this partnership, the Gerdau group will hold a 30% ownership interest in this company and agreed to invest US$180 million in its operations in Central America.

On April 23, 2008, the Company acquired the MacSteel division of Quanex Corporation. The shareholders of Quanex approved the acquisition at a special shareholders' meeting held on April 22, 2008. The acquisition price was US$1.46 billion. In addition, the Company assumed all debt and certain other liabilities. The acquisition is being financed with working capital and short-term financings.

On April 30, 2008 the Company consumated a primary offering of the Company's common and preferred shares (including shares in the form of American Depositary Shares, or ADSs) resulting in net proceeds of approximately US$376.82 million from the sale of ADSs and approximately R$1.99 billion in the sale of common and preferred shares.

Recent Financial Results

The Company expects to announce its results for three months ended March 31, 2008 on May 12, 2008, which results will be released in Portuguese, stated in Brazilian *reais*, and prepared in accordance with IFRS. The Company's IFRS statements will differ from, and will not be comparable with, the U.S. GAAP financial statements appearing elsewhere in this offering memorandum and the U.S. GAAP financial statements for the three months ended March 31, 2008, which are not expected to be available until after the IFRS statements are released, currently expected to be sometime in late May 2008. These IFRS financial statements are expected to be filed with, or made available at, www.cvm.gov.br on or about May 12, 2008 and are hereby incorporated into this offering memorandum. Prospective investors are urged to consult their accounting, financial and other advisors to obtain a fuller description of the principal differences between IFRS and U.S. GAAP.

The Company believes that, when issued, its results for the first three months of 2008 will be consistent with the positive trends experienced by the Company during 2007. Revenues from the Company's principal segments are expected to increase not taking into account the effect of recent acquisitions, including the Company's acquisition of Chaparral Steel in late 2007. Taking into account the Chaparral and other acquisitions, the Company expects to continue to realize the positive effects and expected synergies of these transactions during 2008.

Costs and expenses for the first three months of 2008 are expected to be generally in line with that for prior periods, except for some limited price increases in certain raw materials.

The Company expects to continue to integrate Chaparral and other acquisitions throughout 2008 and to continue, as is the case with MacSteel, to identify and consummate further acquisitions in its principal markets where the Company believes doing so will be accretive to its financial condition and results of operations. Although there can be no assurances at this time as results for the first three months of 2008 are in the process of being finalized, the Company generally expects its overall results of operations and financial condition at March 31, 2008 and through the date hereof will be generally consistent with the positive levels experienced in the comparable period in 2007.

THE STEEL INDUSTRY

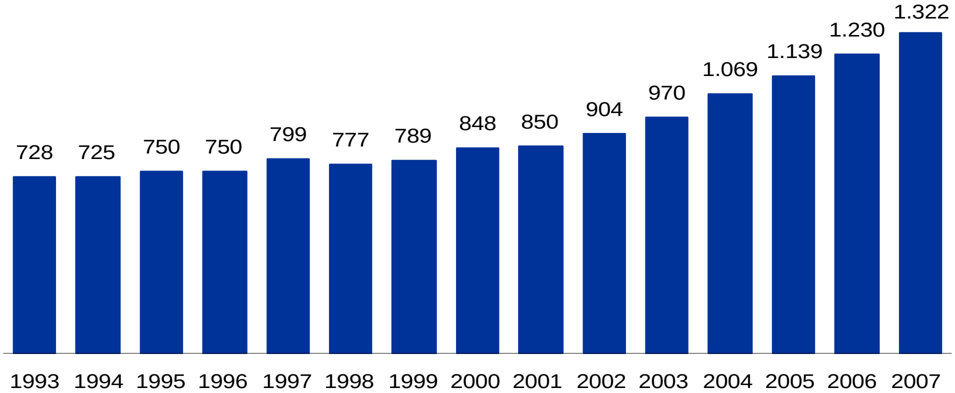
Overview of International Steel Industry

The world steel industry is composed of hundreds of steel producing installations and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as "mini-mills." Integrated steel mills normally produce steel from iron oxide, extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Semi-integrated steel mills produce steel by melting scrap steel, occasionally complemented by other metals, such as direct-reduced iron or hot-compressed iron in electric arc furnaces.

In the past fifteen years, total annual crude steel production has grown from 728 million tonnes in 1993 to 1,322 million tonnes per year in 2007, an average annual increase of 4.3%. A large part of that growth occurred after 2000.

The main factor responsible for the increase in the demand for steel products has been China. In less than three years, China has become the world's largest steel market, consuming as much as the U.S. and Europe combined.

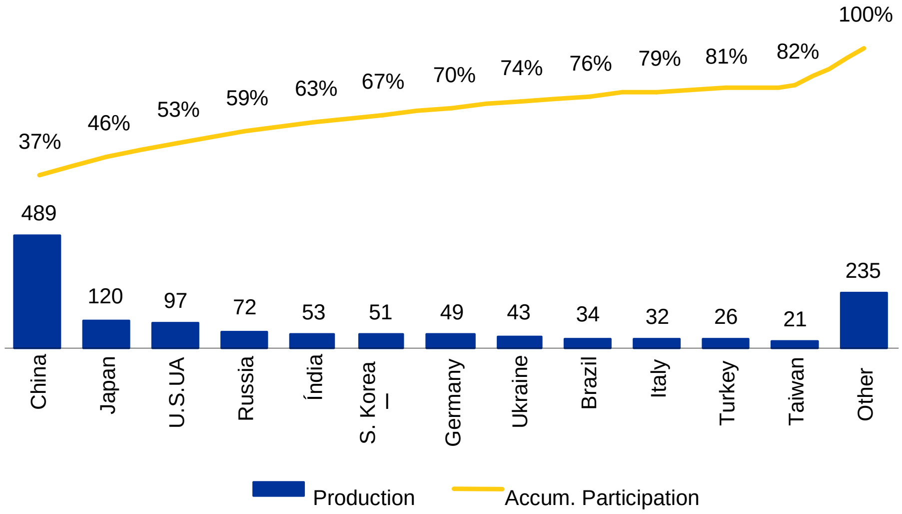
Crude Steel Production (in millions of tonnes)



Source: IISI/World steel figures 2007.

China is undergoing a period of strong industrialization, launching several infrastructure projects and developing an important manufacturing base, which has also contributed to increased demand for steel. Steel prices have risen sharply over the past four years and steel producers have sought to meet China's increased demand for steel products with investment programs designed to increase installed capacity. China is currently the world's biggest producer of steel, with production of 489.2 million tonnes of crude steel in 2007.

Crude Steel Production by Country



Source: IISI/World Steel Figures 2007

China has been increasing its production in spite of government efforts to limit excess capacity. Even though China became a net exporter of long steel in 2006, its production has not yet affected international prices, since demand is still strong in the major steel markets.

At the beginning of 2004, the worldwide steel supply-and-demand relationship achieved a positive balance on the supply side. With China's economic growth fueling world demand for steel and raw materials, conditions in the steel industry changed drastically for the better in 2004. Since China's steel production began to grow at a very accelerated rate, the world steel industry has witnessed an unprecedented increase in the cost of scrap metal and steel prices have greatly exceeded their historic highs.

Recently, the world steel industry has undergone an intense process of consolidation. In 1990, the world's five biggest steel producers represented 12.3% of total production and in 2007, 62.8%. If China is excluded from the sample, the leap is even greater: in 1990, that number was equal to 13.4%, and in 2007, equivalent to 47.4%.

The Brazilian Steel Industry

Overview

Since 1940, steel has been of vital importance to Brazil's economy. For approximately 50 years, the Brazilian government maintained a monopoly in the production of flat steel products via the state-owned company Siderurgia Brasileira S.A.—SIDEBRÁS. But the Brazilian government did not have a monopoly of the non-flat steel products industry, traditionally composed mainly of small private companies. The principal integrated producers of flat steel products operated as semi-independent companies under the control of SIDEBRÁS. During the 1970s, the government invested heavily to give Brazil a steel industry capable of fueling the country's industrialization process. After a decade of practically no investments in this industry, the government selected steel as the first industry to be sold in the privatization process that began in 1991.

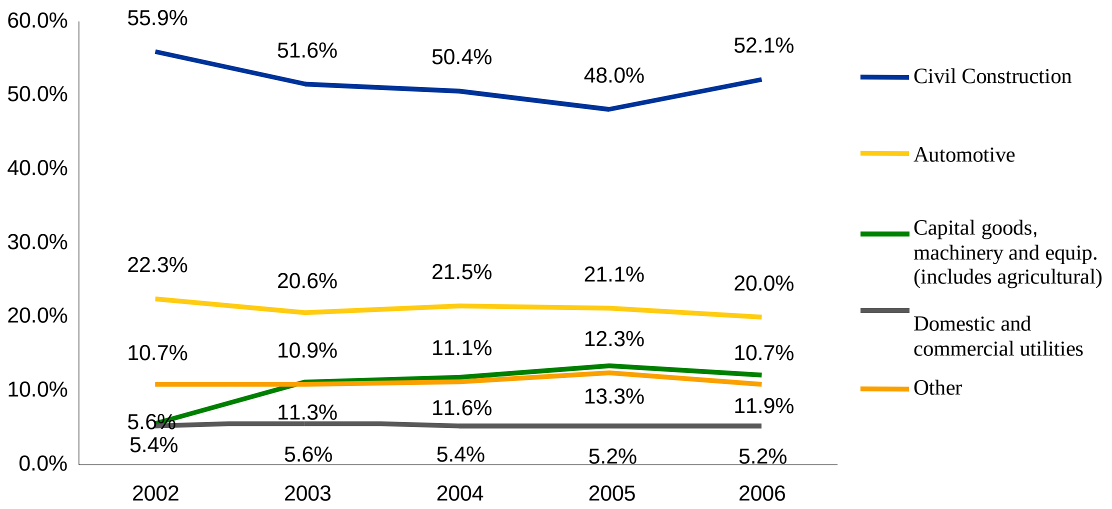
Brazil, with its high installed capacity and tradition as a world steel exporter, has consistently exported a substantial portion of its production. Sales of Brazilian steel products totaled 30.9 million tonnes in 2007, 30.0 million tonnes in 2006, and 28.6 million tonnes in 2005, exceeding domestic demand of 22.0 million tonnes in 2007, 18.5 million tonnes in 2006, and 16.8 million tonnes in 2005 by 8.9 million tonnes, 11.5 million tonnes, and 11.8 million tonnes, respectively.

Brazil has performed an important role in the export market, principally as an exporter of crude steel (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of crude steel totaled 5.1 million tonnes in 2007, 5.7 million tonnes in 2006, and 6.0 million tonnes in 2005, representing 49.5%, 45.2%, and 47.6% of Brazil's total exports of steel products, respectively.

In 2007, the Brazilian market continued its expansion seen in 2006, and Brazil was the world's 9th largest producer of crude steel, with a production of 33.8 million tonnes, a 2.6% share of the world market and half of the total steel production in Latin America in 2007. This was equivalent to approximately twice Mexico's production and a third of U.S. production.

The civil construction industry continued to be the main driving force behind the expansion in 2007, supported by various other factors, such as government measures to reduce the tax burden, keep inflation under control and increase population income, resulting in more jobs and lower interest rates. The agro-industrial sector has been recovering from the effects of Asian flu, poor harvests and low commodity prices, while the industrial sector continued to have sustained growth.

Participation of the principal industries as end-users of long-steel products



Source: IBS

Domestic demand

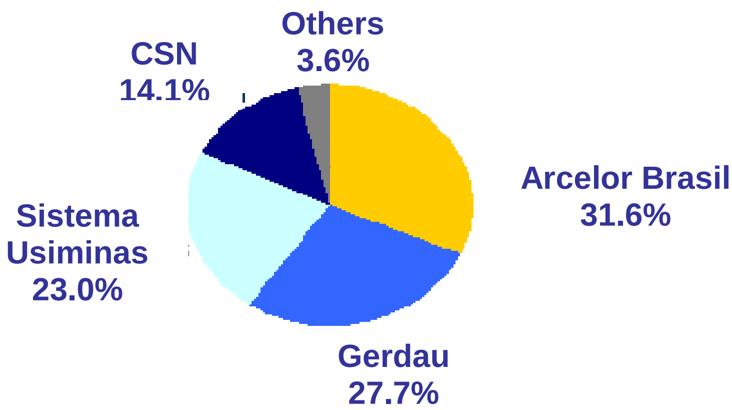
Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita domestic consumption varies according to the gross domestic product, or GDP, variations in steel consumption tend to be more accentuated than changes in economic activities. Per capita crude steel consumption in Brazil increased from 100 kilos in 1999 to 129 kilos in 2007, which is still considered low when compared to the levels seen in developed countries.

In 2005 and 2006, the Brazilian GDP grew 2.9% and 3.7%, respectively, due mainly to a more restrictive monetary policy. Between 2005 and 2006, total steel sales in the domestic market increased 9.2%, from 16.1 million tonnes to 17.5 million tonnes. Sales of long steel products totaled 6.9 million tonnes in 2006, representing a growth of 10.3% in relation to the previous year. But between 2006 and 2007, total steel sales in the domestic market increased 17.2%, from 17.5 million tonnes to 20.5 million tonnes. Sales of long steel products totaled 8.1 million tonnes in 2007, a growth of 16.9% in relation to the previous year.

Market participants

In 2007, the steel industry in Brazil was composed of primarily ten companies. The industry's annual installed capacity in 2006 was approximately 41.2 million tonnes, producing a variety of flat, long, carbon, stainless and specialty steel products. Eight out of the ten companies were integrated producers and two were semi-integrated producers, which utilize the integrated production of steel in just some of their mills.

Market share of the industry's major companies in Brazil (2006)



Source: IBS

The Brazilian steel market is highly competitive. The following table shows the major Brazilian Steel companies and their share of the Brazilian long steel market:

Long-steel market share – Brazil (%)	Year ending December 31, 2007	2006
Gerdau[*]	51.8	46.9
ArcelorMittal Belgo	35.8	36.7
V&M do Brasil	6.1	6.2
Siderúrgica Barra Mansa	5.5	5.6
Other	0.8	4.6
Total	**100.0**	**100.0**

Source: IBS
(*) Includes Aços Villares.

In the domestic market, Gerdau Açominas is practically an exclusive supplier to specific customers, and the principal competitors in this sector are the Europeans and, to a lesser degree, the Japanese.

The following table shows the major companies and their share of the Brazilian crude steel market:

Brazilian producers of crude steel (%)	Year ending December 31, 2007	2006
ArcelorMittal Brasil[1]	30.3	30.8
Sistema Usiminas[2]	25.7	28.4
Gerdau	21.5	22.6
Companhia Siderúrgica Nacional	15.5	11.3
Other	6.8	6.9
Total	**100.0**	**100.0**

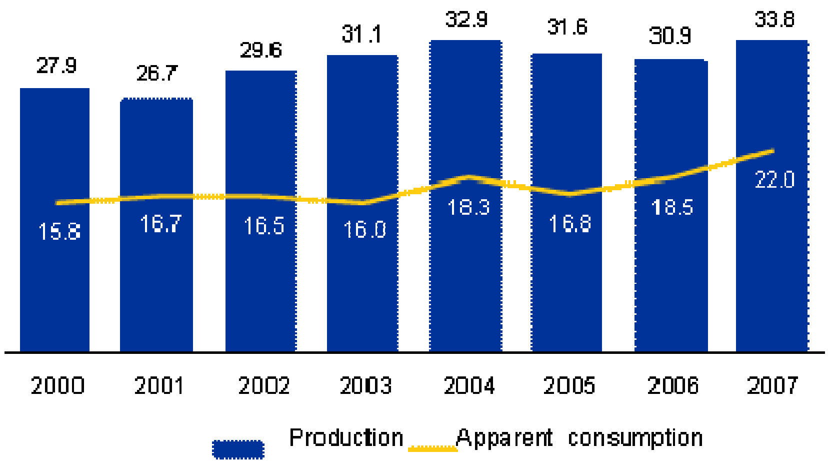
Source: IBS
(1) Arcelor S.A. controls CST, Belgo and Acesita.
(2) Usiminas and Cosipa are part of the Usiminas group.

Exports and Imports

In 2007, Brazilian steel exports totaled 10.3 million tonnes, representing 33.4% of total sales (domestic sales plus exports) or US$6.5 billion in export revenue. According to the IISI, in 2007, Brazil was the tenth largest exporter of semi-finished and finished steel products in the world. Brazil is a small importer of steel products. Its steel imports in 2007 totaled only 1.7 million tonnes, or 7.3% of apparent domestic consumption. In 2007, Brazil recorded a positive balance in steel transactions of US$4.7 billion and a total positive commercial balance of US$40.2 billion.

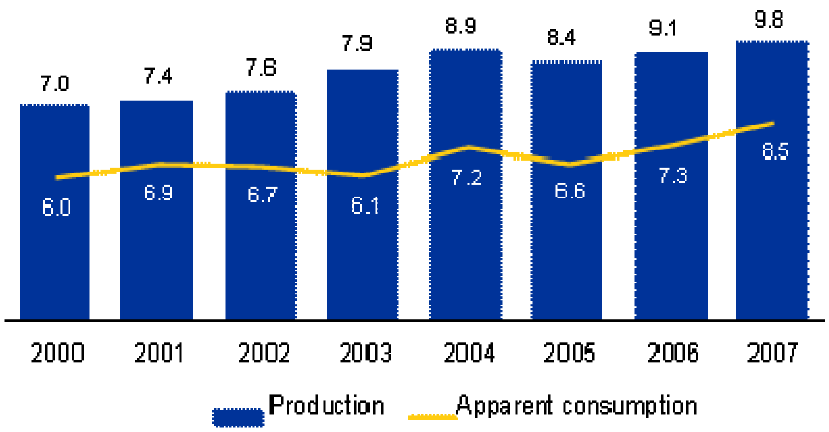
In the past 20 years, the Brazilian steel industry has been characterized by a structural need for exports. The Brazilian steel market has undergone periods of excess capacity, cyclic demand, and intense competition in recent years. Demand for finished steel products, based on apparent domestic consumption, has been lower than total supply (total production plus imports).

Production and Apparent Demand for Crude Steel (in million tonnes)



Source: IBS

Production and Apparent Demand for Long Steel (in million tonnes)



Source: IBS

Brazil's steel-exports market is diversified. In 2007, it exported steel to more than 100 countries. Latin America, Europe and Asia were its main import markets, representing 32.1%, 21.1% and 20.3% of all Brazilian steel exports, respectively, in that year. The U.S. was the main destination, representing 19.0% of all exports. The five biggest markets together corresponded to 44.7% of Brazilian steel exports in 2007.

In 2007, Brazil's long-steel imports totaled 1.6 million tonnes, or 7.3% of domestic apparent consumption. In 2007, Brazil imported 338,700 tonnes of long steel products.

Raw materials

One of Brazil's major competitive advantages is the low cost of its raw materials. Brazil has an abundance of high quality iron ore. Various integrated producers are located in the state of Minas Gerais, where some of the world's biggest iron ore mines are located. The cost of iron ore in Brazil is approximately one third the cost of iron ore in Japan, Eastern Europe, the U.S. and South Korea.

In Brazil, most of the scrap metal utilized by the steel mills comes from the state of São Paulo. Its suppliers deliver scrap metal originating from obsolescence directly to the steel mills. The Brazilian steel industry's dependency on scrap metal is minimal, due to the high percentage of total steel production coming from integrated producers.

Brazil is a net producer of pig iron. Most of Brazil's pig iron is produced in the state of Minas Gerais by several small producers. In Brazil, the price of pig iron is related to the cost of charcoal, an important input and the most volatile component in pig iron's production cost. When the price of charcoal is high, coking coal can be used as a substitute and, although more expensive, it produces more pig iron. Practically all the coking coal is imported because domestic supplies are considered low quality.

The Steel Industry in North America

Overview

The North American steel industry is currently facing a variety of challenges, including volatile pricing, high fixed costs, low-priced imports, the diminution of the effect of U.S. tariffs and challenges to the industry's ability to attract new management talent. The future success of North American steel producers is dependent upon numerous factors, including general economic conditions, levels and prices of steel imports and the strength of the U.S. dollar.

Beginning in mid-2000 and continuing through 2002, the North American steel industry experienced a severe downward cycle due to excess global installed capacity, high import levels at low prices, including prices that were below the combined costs of production and shipping, and weak general economic conditions. These forces resulted in lower U.S. steel prices and significant domestic capacity closures. Prices for many steel products reached 10-year lows in late 2001 and several U.S. steel companies sought protection under Chapter 11 of the U.S. Bankruptcy Code since the beginning of 2000. In response to these conditions, in March 2002, President Bush imposed a series of tariffs and quotas on certain imported steel products under Section 201 of the Trade Act of 1974. These measures were intended to give the domestic steel industry an opportunity to strengthen its competitive position through restructuring and consolidation. The duties were imposed for a period of three years and were to decrease each year they were in effect. For flat rolled products and various merchant and special bar quality products, the tariff was set at 30.0%, 24.0% and 18.0% for the first, second and third year, respectively. For rebar products, the tariff was set at 15.0%, 12.0% and 9.0% for the first, second and third year, respectively. On November 10, 2003, the World Trade Organization (WTO) Appellate Body issued a ruling that upheld an initial WTO panel ruling that declared the Section 201 tariffs on steel imports to be in violation of WTO rules concerning safeguard measures. On December 4, 2003, President Bush signed a proclamation terminating the steel safeguard tariffs, and announced that the tariffs had achieved their purpose and changed economic circumstances indicated it was time to terminate them. International trade negotiations, such as the ongoing Organization for Economic Cooperation and Development steel subsidy agreement negotiations and the WTO Doha Round negotiations, may affect future international trade rules with respect to trade in steel products.

Consolidation

The North American steel industry has recently experienced some consolidation. Bankrupt steel companies, once overburdened with underfunded pension, healthcare and other legacy costs, are being relieved of obligations and purchased by other steel producers. This consolidation, including the purchases of the assets of LTV Corporation, Bethlehem Steel Corporation, Tricô Steel Co. LLC and National Steel Corporation, has created a lower operating cost structure for the resulting entities and a less fragmented industry. In the bar sector in 2002, the combination of Gerdau North America and Co-Steel in October 2002 and Nucor Corporation's acquisition of Birmingham Steel Corporation in December 2002 significantly consolidated the market. The Company's acquisition of the North Star assets from Cargill, Incorporated in November 2004, and the acquisition of Sheffield Steel in 2006 contributed to this consolidation trend.

Raw Materials

Prices for steel scrap are subject to market forces largely beyond producers' control, including demand by U.S. and international steel producers, freight costs and speculation. The increasing rate of worldwide steel scrap consumption, especially in China, has placed significant upward pressure on the price of steel scrap. A combination of a weaker U.S. dollar, strong global demand for steel scrap and lower production of domestic steel scrap due to a weaker domestic manufacturing economy have reduced the domestic steel scrap supply resulting in steel scrap prices which are currently at a ten-year high. Metal spread, the difference between mill selling prices and scrap raw material cost, is also currently well above previous ten-year highs.

BUSINESS OF GERDAU

Overview

According to the IBS, the Company is Brazil's largest producer of long rolled steel and, according to AISI estimates, the second largest producer in North America based on volume produced. Gerdau has a significant market share of the steel industry in almost all the countries where it operates and has been classified by IISI as the 14th largest steel producer in the world based on its consolidated production of crude steel in 2006.

Gerdau operates steel mills that produce steel by direct iron-ore reduction, or DRI, in blast furnaces, or via electric arc furnaces, or EAF. In Brazil it operates three blast furnace-operated steel mills including its largest mill, Gerdau Açominas, an integrated steel mill located in Ouro Branco in the state of Minas Gerais. The Company currently operates a total of 43 steel producing units in Latin America (including Brazil) and North America, as well as a consolidated subsidiary in Spain, Corporación Sídenor, for the production of special steel, and two associated companies: one in the Dominican Republic and another in Mexico. Gerdau also participates in two joint ventures: one in the U.S. for the production of flat rolled steel and another recently formed venture in India. During the fiscal year ended December 31, 2007, approximately 41.0% of all its sales volume was generated from operations in Brazil, 40.5% from operations in the U.S. and Canada, 13.1% from Latin American operations (excluding Brazil) and 5.4% from European operations.

As of December 31, 2007, total consolidated installed capacity, excluding the Company's investments in joint ventures and associated, unconsolidated companies, was 24.8 million tonnes of crude steel and 21.0 million tonnes of rolled steel products. For the fiscal year ended December 31, 2007, the Company had total consolidated assets of US$22.97 billion, consolidated net sales of US$15.81 billion, total consolidated net income of US$1.62 billion and a shareholders' equity of US$7.00 billion.

Gerdau offers a wide array of steel products, manufactured according to an extensive variety of customer specifications. Its product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry, such as rods and structural bars, finished products for industry such as commercial rolled steel bars and machine wire and products for farming and agriculture, such as poles, smooth wire and barbed wire. Gerdau also produces specialty steel products utilizing advanced technology and normally with a certain degree of customization, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant and increasing portion of Gerdau's steel production assets are located outside Brazil, particularly in the U.S. and Canada, as well as in Latin America and Europe. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 18 steel production units in the U.S. and Canada through its principal entity, Gerdau Ameristeel, and believes that it is one of the market leaders in North America in terms of production of some long steel products, such as rods, commercial rolled steel bars, extruded products and girders.

The Company's operating strategy is based on the acquisition or construction of steel mills close to its customers and the sources of raw materials required for steel production such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it produces. However in recent years, especially after acquiring the Ouro Branco plant, the Company has expanded its exposure to the international markets and taken advantage of increased international demand and higher steel prices outside Brazil. The Company has a diversified list of international customers and its main export destinations include the U.S., Taiwan, South Korea, Thailand and Latin American countries such as Argentina, the Dominican Republic and Ecuador.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including reforestation and electric power generation projects.

The Company's principal executive office, as well as that for the other Guarantors, is at Av. Farrapos 1811, CEP 90220-005, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number at this address is (+55-51) 3323-2000.

History

The current Company is the result of a number of corporate acquisitions, mergers and other transactions dating back to 1901. The Company began operating in 1901 as the Pontas de Paris nail factory controlled by the Gerdau family based in Porto Alegre, who is still the Company's indirect controlling shareholder. In 1969, Pontas de Paris was renamed Metalúrgica Gerdau S.A., which today is the holding company controlled by the Gerdau family through intermediate holding companies, that itself controls what is today Gerdau S.A. See "Ownership and Capital Structure."

Between 1901 and 1969, the Pontas de Paris nail factory grew and expanded its business into a variety of other steel and steel-related products and services. At the end of World War II, the Company acquired Siderúrgica Riograndense S.A., a steel producer also located in Porto Alegre, in an effort to broaden its activities and provide it with greater access to raw materials. In February 1948, the Company initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces, using steel scrap as the main raw material. At such time, the Company adopted a regional sales strategy to ensure more competitive operating costs. In 1957, the Company installed a second unit in the city of Sapucaia do Sul (state of Rio Grande do Sul) and in 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo (state of Rio Grande do Sul).

In 1967, the Company expanded into the Brazilian state of São Paulo, purchasing Fábrica de Arames São Judas Tadeu, a producer of nails and wires, which was later renamed Comercial Gerdau and ultimately became the Company's Brazilian distribution channel for steel products. In June 1969, the Company expanded into the Northeast of Brazil, producing long steel at Siderúrgica Açonorte in the state of Pernambuco. In December 1971, the Company acquired control of Siderúrgica Guaíra, a long steel producer in the state of Paraná in Southern Brazil. The Company also established a new company, Seiva S.A. Florestas e Indústrias, to produce lumber on a sustainable basis for the furniture, cellulose and steel industries. In 1979, the Company acquired control of the Cosigua mill in Rio de Janeiro, which currently operates the largest mini-mill in Latin America. Since then, the Company has expanded throughout Brazil with a series of acquisitions and new operations, and the Company currently owns 11 steel units in Brazil.

In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., or Gerdau Laisa, the only long steel producer in Uruguay, followed in 1989 by the purchase of the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., or Gerdau AZA, a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a minority interest in a rolling mill in Argentina, control of Diaco S.A., the largest rebar manufacturer in Colombia, and, most notably, by acquiring additional interests in North America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections, such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In October 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on tonnes of steel produced. The Company currently holds 66.5% of the outstanding shares of Gerdau Ameristeel, whose remaining shares are publicly traded in Canada and in the U.S. Gerdau Ameristeel itself has a number of operations throughout Canada and the U.S., including its 50% joint venture interest in Gallatin Steel, a manufacturer of flat steel, in addition to operating 18 steel units, as well as 49 fabrication shops and 11 downstream operations.

In September of 2005, Gerdau acquired 36.0% of shares issued by Sipar Aceros S.A., a long steel rolling mill located in the Province of Santa Fé, Argentina. This stake added to the 38.5% already owned by Gerdau, and represents 74.5% of the capital stock of Sipar Aceros S.A. At the end of the third quarter of 2005, Gerdau concluded the acquisition of a 57.1% stake in Diaco S.A., the largest rebar manufacturer in Colombia. In January 2008, the Company purchased an additional interest of 40.3%, increasing its ownership to 97.4%.

On January 10, 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, the Company acquired 40% of the capital stock of Corporación Sídenor, S.A., the largest long specialty steel producer, forged parts manufacturer and foundry in Spain and one of the major producers of forged parts using the stamping process in that country.

In March of 2006, the assets of two industrial units were acquired in the U.S. The first one was Callaway Building Products, in Knoxville, Tennessee, a supplier of civil construction cut and bent reinforcing concrete bars. The second was Fargo Iron and Metal Company, located in Fargo, North Dakota, a storage and scrap processing facility and service provider to industries and civil construction companies.

In June of 2006, Gerdau acquired Sheffield Steel Corporation, of Sand Springs, Oklahoma, in the USA. Sheffield is a mini-mill producer of common long steel, namely concrete reinforcing bars and merchant bars. It has one melt shop and one rolling mill in Sand Springs, Oklahoma, one rolling mill in Joliet, Illinois, and three downstream units in Kansas City and Sand Springs.

In the same month, Gerdau S.A. won the bid for 50.0% plus one share of the capital stock of Empresa Siderúrgica Del Perú S.A.A. - Siderperú, located in the city of Chimbote (Peru). In November 2006, Gerdau also won the bid for 324,327,847 shares issued by Siderperú, which represents 32.8% of the total capital stock. This acquisition added to the stake already acquired earlier in the year and represents 83.3% of the total capital stock of Siderperú. Siderperú operates a blast furnace, a direct reduction unit, a melt shop with two electric arc furnaces and two LD converters and three rolling mills. Approximately 20.0% of its sales are in flat steel products and 80.0% are in long steel products.

In November 2006, through its subsidiary Gerdau Ameristeel Corporation, Gerdau entered into a joint venture with Pacific Coast Steel, Inc. (PCS) and Bay Area Reinforcing (BAR) with Gerdau Ameristeel acquiring a controlling interest in the new joint venture, Pacific Coast Steel. This joint venture is one of the country's largest reinforcing steel contractors, specializing in the fabrication and installation of reinforcing steel products involving a variety of construction projects throughout California and Nevada.

In December of 2006, Gerdau announced that its Spanish subsidiary Corporación Sídenor, S.A. in which it has a 40.0% stake, had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., subsidiary of CIE Automotive. GSB Acero produces specialty steel and is located in Guipúzcoa, Spain.

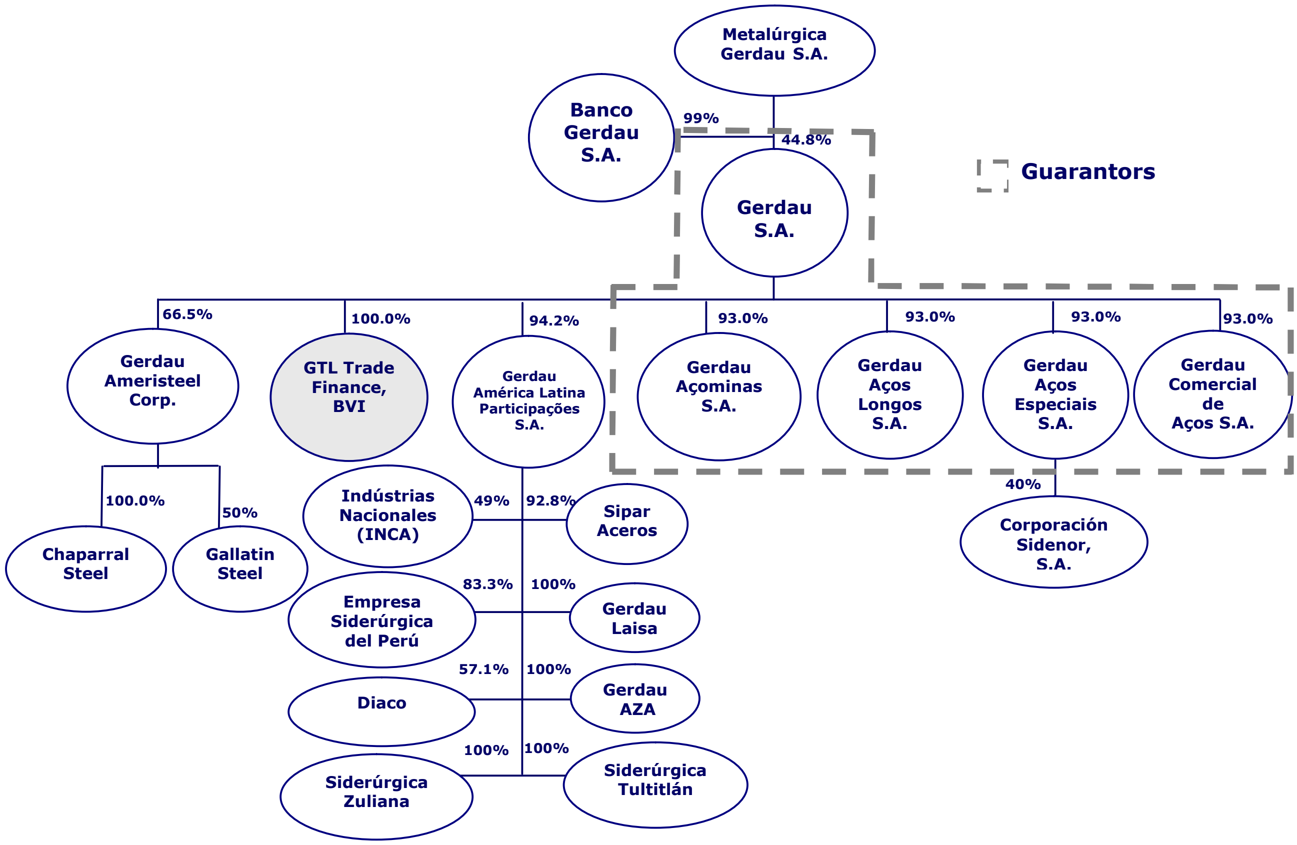
Reorganization

In December 2004, the Company decided to reorganize its operations in Brazil and elsewhere in Latin America to create a series of subsidiaries focused on the different products and aspects of its business. This reorganization, or the 2005 Reorganization, was also intended to take advantage of certain tax and other benefits available to the Company under Brazilian law resulting from changes in laws relating to the cumulative effect of social contribution taxes (PIS and COFINS). The reorganization involved a series of steps in which the Company began separating the various businesses of its principal Brazilian operating entity, Gerdau Açominas. In connection with the reorganization, the Company also decided to seek additional funds in order to finance its investment programs through an increase in the capital stock of a holding company of Gerdau Açominas by a private placement to a minority investor.

This reorganization and the creation of separate Brazilian operating entities was completed in July 2005 and as a result the Company's Brazilian and Latin American steel production and sales activities have been spun out of Gerdau Açominas and are now conducted by (i) three newly created majority-owned subsidiaries – Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços – and the former Gerdau Açominas and (ii) a newly created Latin American holding company called Gerdau América do Sul Participações S.A., which holds the Company's Latin American operations outside of Brazil and the Company's operations in Colombia. See "Business of Gerdau-Significant Subsidiaries."

As a result of the 2005 Reorganization and acquisitions made since, the Company's operational structure (including its principal operating subsidiaries engaged in the steel production business) is as follows as of December 31, 2007:

The 2005 Reorganization has had no effect on the Company's corporate governance, which continues as in the past. See "Management."



Business Strategy

The Company's objective is to produce high-quality steel products and by-products competitively, meeting the needs of its customers and the objectives of its stockholders and maintaining a position of prominence in the domestic and international steel markets. The Company intends to achieve that objective by adopting the following strategies:

Increasing presence in the global markets by means of acquisitions and organic growth

The Company intends to follow the global consolidation process through acquisitions and organic growth. The Company's international growth strategy is based principally on the acquisition of steel mills whose profitability the Company believes it can increase in the short term, through the Company's management experience, without the need for significant capital investments. In the Americas, the Company's acquisition strategy is focused primarily on long steel products, whereas in Europe and Asia the focus has been on specialty steel products. In the past three years ending on December 31, 2007, the Company has made 17 acquisitions, including Chaparral Steel in the U.S. (installed capacity of 2.5 million tonnes), Corporación Sídenor and GSB Aceros in Spain (installed capacity of 1.1 million tonnes), Siderperu in Peru (installed capacity of 540,000 tonnes) and the Feld Group in México (installed capacity of 350,000 tonnes).

The Company also intends to continue expanding its operations organically by increasing its capacity, as well as through production optimization projects. For example, the Company recently completed the process of building a second blast furnace adjacent to the existing integrated steel production installations at its Ouro Branco steel mill and installing a second continuous ingot caster at the same unit, resulting in a capacity increase in Brazil of approximately 15.0%, to 11.4 million tonnes of crude steel per year. In the U.S. the Company installed a new steel mill in Jacksonville, Florida, raising its production of crude steel in North America to 10.0 million tonnes per year.

At the same time that the Company intends to continue expanding its operations through acquisitions and organic growth, it will seek to maintain its credit rating with the principal international rating agencies.

Continue maximizing proximity to the Company's customers through decentralized production

The majority of the Company's steel mills are sized and located to meet the principal needs of the local markets, providing effective access to customers and raw materials. This strategy was developed in response to the geographic size of Brazil, the U.S. and Canada, and the high transportation and freight costs in each of these markets. The Company services its customers and obtains raw materials locally, thereby reducing transportation costs and enabling the Company to deliver quality products to its customers at competitive prices. The Company's geographic presence also allows the Company to have closer relations with its customers, adapting production to their needs.

Maintain different sources of raw materials and achieve a high degree of vertical integration in supply of iron ore

The Company seeks to reduce its dependency on its suppliers and reduce the possible negative impacts of temporary shortages of specific raw materials. To do so, the Company has established commercial relations with more than 7,000 suppliers of scrap metal throughout the world and with various suppliers of pig iron, iron ore and, to a lesser degree, coke-producing charcoal and other raw materials.

In addition, the Company has approximately 1.8 billion tonnes of ore reserves. Approximately 30.0% of the ore consumed by Gerdau Açominas comes from its mineral reserves and the remaining 70.0% is acquired from mines in the region. By the end of 2009, the Company intends to supply 45.0% of the Company's core iron ore needs. In 2010, the Company expects its mines to provide 80.0% of the ore utilized by its units in Brazil. The Company believes that by diversifying the production processes it will reduce its exposure to raw material shortages.

Expand mix of products and increase market share of value-added products

The three main product or industrial markets in which the Company operates are civil construction, industry and agriculture. To serve their needs, the Company offers a wide array of products, such as crude steel (slabs, blooms and billets) for rolling mills; finished products for construction, such as structural extrusions and bars; commercial rolled bars and machine wire for industrial use and products for farming and agriculture, such as poles, nails, smooth wire and barbed wire. The Company also produces specialty steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

The Company intends to increase its market share of value-added products in such a way as to directly meet the specific needs of its customers and, consequently, capture the higher prices paid for these products.

In addition, the Company adds value to its products through steel-cutting and shaping units, and downstream operations, such as epoxy coating and production of products with specialty sections, wire and nails, cold-drawn products, elevator guide rails and super-light profiles.

Finally, the Company intends to expand its portfolio of products manufactured by the Company in Brazil, so as to operate in all segments, including flat steel.

Maintain focus on technology and efficient operations

In the past three years, the Company invested US$3.3 billion in machinery and equipment, mainly to upgrade its mills, production processes and technologies in acquired companies. It is the Company's belief that dedication to these production processes and state of the art technology will enable the Company to maintain its efficiency and deliver its products according to the needs of its customers. In addition, it is continuously seeking ways to improve the efficiency of its production processes by, among other things:

- utilizing proven quality-control management systems, including a proprietary management system that supports the Company's operations and integrates acquired mills with internationally recognized techniques and processes and ISO 14,001 processes;

- reducing production costs by implementing efficient control procedures, using less expensive raw materials and fuels and adopting new process technologies;

- reducing energy consumption, with an emphasis on the use of more energy-efficient processes such as reutilizing in-plant generated energy in the Ouro Branco steel mill and adopting new process technologies, and;

- reducing inventory levels, in order to decrease its working-capital requirements.

Competitive Strengths

Low-cost production of long steel products in Brazil

The Company continuously invests in new technology and looks for ways to increase the productivity of its installations so that it can compete more efficiently in the markets where it operates. Its mini-mills offer a flexible cost structure that enables the Company to mitigate reductions in its profit margins, as compared to blast furnace steel mills, whose fixed costs are significantly higher than those of the mini mills. In relation to integrated installations, the costs of the Company's steel mill in Ouro Branco are lower since it is located in a region in the state of Minas Gerais which is rich in iron ore reserves. Raw materials are delivered to this mill from distances of less than 50 km, which keeps the Company's transportation costs lower than those of its competitors. The Company's suppliers are mainly small mines that sell iron ore at lower average prices than their competitors which are engaged in the export business. Other factors that contribute to the Ouro Branco steel mill's lower production costs are its ability to produce its own coke from various types of coal supplied by the U.S., Canada and Australia, and its ability to supply part of its iron ore needs from mines owned by the Company with proven reserves of 1.8 billion tonnes, according to internal estimates.

Diversified geographic location of production and distribution of steel

The Company's installations are strategically located close to its customers and the main sources of its raw material. Through the Company's network of 39 mini mills located in Brazil and abroad, especially in the U.S. and Canada, the Company is able to efficiently serve its customers over a wide geographic area of the international steel market. Comercial Gerdau, which is the Company's major distribution channel, operates 68 retail facilities throughout Brazil as well as, 14 fabricated reinforcing steel facilities and four flat-steel service centers, which enabled it to provide services to approximately 150,000 customers in 2007. Another important distribution channel in Brazil is the Company's network of approximately 21,000 distributors to whom the Company sells its products, offering extensive domestic coverage. In the U.S. and Canada, the 18 steel production units are located mostly in the mid-west and in the eastern portion of the continent, regions with a higher concentration of industrial activity and greater availability of raw materials; the Company's 49 cutting and shaping units and 11 downstream operations are scattered throughout the U.S., enabling the Company to provide extensive territorial coverage and to be located close to its principal customers. In Chile, the Company has five distribution units under the name Salomon Sack. In addition, Gerdau AZA also sells its products through Aceros Cox in Chile. In Argentina, the Company has a distribution unit known as Siderco.

Ability to respond to lower domestic demand

The Company seeks to offset any lower domestic demand by distributing its steel products to various overseas markets that generally have greater demand, better prices and, consequently, higher profit margins. In the past three years, the Company exported products from Brazil to customers in other continents with whom the Company has long-established commercial relations. In 2007, the Company's exports represented 30.6% of all sales volume by its Brazilian units as compared to 36.2% in 2006, due to an increase in domestic market activity in 2007.

Diversification of production processes and the wide variety of suppliers

The Company has invested in a diversified platform of production processes, including electric arc furnaces, blast furnaces and the direct iron-ore reduction process. At the same time the Company has sought to minimize its dependence on certain raw material suppliers.

In Brazil, the Company operates three steel mills operating with blast furnaces, including the Ouro Branco mill in the state of Minas Gerais, with an installed capacity of 4.5 million tonnes. The Company also operates a network of seven mini-mills in Brazil utilizing electric arc furnaces and an integrated mill that uses the direct iron-ore reduction process. Outside Brazil, the Company operates a blast furnace mill in Peru and mills abroad that produce steel using electric arc furnaces.

The primary raw materials for electric arc furnace steel production are scrap metal and pig iron, whereas blast furnace technology utilizes iron ore, sinter feed (a mixture of iron ore and limestone), ferroalloy and coking coal from coal or charcoal. The direct iron-ore reduction process uses iron ore and natural gas to produce sponge iron utilized in the electric arc furnace of steel production.

The Company operates with over 7,000 suppliers of scrap metal throughout the world and has contracts with various suppliers of pig iron, iron ore and, to a lesser degree, coking coal. The Company believes that, in addition to its iron ore mines, with approximately 1.8 billion tonnes of measured, indicated and inferred reserves, this strategy reduces dependency on specific suppliers and diminishes possible negative effects on its business in periods of crisis in the supply of raw material. The Company also believes that diversification of production processes reduces the risks of shutdowns during periods when raw materials are scarce and demand is low.

Vertical integration in the steel market

The Company operates in the three segments of the steel production market, as follows:

- production and supply of raw materials for utilization of its steel production process;
- production of finished and semi-finished steel products; and
- distribution of its steel products and those of other companies.

The Company believes that it is one of the major buyers of scrap metal in Brazil and North America. In addition, the Company owns four areas of iron ore reserves, two installations for the production of pig iron and two port terminals in Brazil.

On December 31, 2007, the Company's total installed capacity for finished and semi-finished steel products was 24.8 million tonnes, distributed throughout its 43 steel production units in Latin America (including Brazil) and North America, as well as at a consolidated subsidiary in Spain, Corporación Sídenor, for the production of specialty steel, and two associated companies, one in the Dominican Republic (a recently acquired mini mill) and another in Mexico.

Through its subsidiary, Comercial Gerdau, the Company has what it believes is the largest distribution network for steel products in Brazil, with 68 retail facilities throughout the entire country. In addition to distribution of the Company's own steel products, it also distributes flat steel produced by competitors' mills in order to meet its customers' needs, offering a full line of steel products throughout Brazil. Through its four service centers, Comercial Gerdau also offers oxy-cut (a heat based large scale cutting process) and laser-cut (a laser based procedure for accurately cutting complex outlines in sheet metal) service. Outside Brazil, Gerdau operates via direct distribution from its steel units, downstream operations and distribution units, utilizing models that the Company believes are the best fit for each region.

High-quality management

Gerdau has a growth-oriented senior-management team with significant experience in the steel industry. Management's extensive experience has been essential for the Company's growth and provides a solid base on which to expand its operations. Management has vast experience in this industry, typically transforming acquired companies into profitable operations within a short period of time.

The Company believes that its employees are its most valuable resource and are largely responsible for maintaining its competitive advantage. The Company has implemented a business system that identifies global industry benchmarks for the principal operational and safety measures. This system includes training and safety programs and performance-based incentives developed to increase employee performance and motivation.

Products

The Company provides its customers with a wide range of products within the following five major lines:

Common Long Rolled Products

Common long rolled products represent a major portion of the Company's production. The Company's main long rolled products include rebars, merchant bars and profiles, which are used mainly by the civil construction sector and the industrial manufacturing sector. In 2006, common long rolled products accounted for 70.8% of the Company's consolidated shipments. For the year ended December 31, 2007, common long rolled products accounted for 72.8% of the Company's consolidated shipments.

Crude Steel (Billets, Blooms and Slabs)

Crude steel (billets, blooms and slabs) has relatively low added value as compared to other steel products. Billets are square section, long steel bars which serve as inputs for the production of wire rod, rebars and merchant bars. They are the main product of the Company's Ouro Branco mill. Blooms are used to manufacture products such as springs, forged parts, heavy structural shapes and seamless tubes. Slabs are used in the steel industry for the rolling of a broad range of flat rolled products. Slabs are mainly used to produce hot and cold rolled coils, heavy slabs and profiling. In 2006, crude steel (billets, blooms and slabs) accounted for 11.7% of the Company's consolidated shipments. For the year ended December 31, 2007, slabs, blooms and billets accounted for 9.1% of the Company's consolidated shipments.

Crude steel (billets, blooms and slabs) may be produced using either the continuous casting or the conventional process. In the conventional process liquid steel is poured into ingot moulds to be rolled. The hot ingots are sent to the primary rolling mill to be heated in soaking pits and they are then rolled to produce crude steel (billets, blooms and slabs). Although this conventional process is not widely used in Brazil, it is still employed at the Company's Ouro Branco mill. However, the use of a conventional casting system may represent a competitive advantage since the Company believes that it is one of the only companies manufacturing billets and blooms in Brazil and as a result the Company has captive customers for these products in Brazil and also outside of Brazil.

Drawn Products

Drawn products include barbed and barbless fence wires, galvanized wires, fences, concrete reinforcing wire mesh, nails and clamps. Drawn products accounted for 4.7% of the Company's consolidated shipments in 2006 and 4.5% of the Company's consolidated shipments for the year ended December 31, 2007. These products are not exported and are usually sold to the manufacturing, civil construction and agricultural sectors.

Specialty Steel

Specialty or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. The Company produces specialty and stainless steel used in tools and machinery, chains, fasteners, railroad spikes and special coil steel at its Gerdau Aços Especiais Brazil plant, at Aços Villares and at its associated company Corporación Sídenor in Spain.

In the U.S., Gerdau Ameristeel produces special sections such as grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company's clients, mainly manufacturers.

Specialty steel products accounted for 11.1% and 11.9% of the Company's consolidated shipments in 2006 and 2007, respectively.

Flat Products

The Company's Ouro Branco mill produces slabs, which are used to roll flat products such as hot and cold steel coils, heavy plates and profiles. In 2006 flat steel products accounted for 1.7% of the Company's shipments in Brazil and 1.7% for 2007. In addition, the Company's distribution subsidiary, Comercial Gerdau, resells flat steel products manufactured by other Brazilian steel producers, also adding value through additional processing at its four flat steel service centers.

Through its joint venture company Gallatin, located in Kentucky, Gerdau Ameristeel also supplies flat steel to its customers. Gallatin is a joint venture with Arcelor Mittal, Canada, a leading flat steel producer, and has a nominal installed capacity of 1.4 million tonnes of flat steel per year. Both partners in the joint venture have a 50.0% stake.

Consolidated Shipments by Product Line	**Year ended December 31,**		
(percent)	**2007**	**2006**	**2005**
TOTAL (in thousands of tonnes)	17,159	14,890	12,860
Crude Steel (Slabs, Blooms & Billets)	9.1%	11.7%	17.3%
Sales in Brazil	1.1%	1.5%	2.3%
Exports from Brazil	7.5%	9,6%	14.8%
International operations	0.5%	0.6%	0.2%
Common Rolled Products	72.8%	70.8%	72.6%
Sales in Brazil	16.4%	15.5%	15.3%
Exports from Brazil	3.7%	5.3%	7.3%
International operations	52.7%	50.0%	50.0%
Specialty Steel	11.9%	11.1%	3.0%
Sales in Brazil	5.4%	5.5%	2.9%
Exports from Brazil	1.1%	1.1%	0.1%
International operations	5.4%	4.6%	—
Drawn Products	4.5%	4.7%	5.1%
Sales in Brazil	4.4%	4.6%	4.8%
Exports from Brazil	0.1%	0.1%	0.3%
Flat Steel	1.7%	1.7%	2.0%
Sales in Brazil	1.4%	1.4%	2.0%
International Operations	0.3%	0.3%	—

Operations

Overview

The Company sells its products to a diversified list of customers for use in the construction, manufacturing and agricultural industries. Sales by the Company's Brazilian operations include both domestic and export sales. Most of the sales by the Company's business operations in North and Latin America (except Brazil) are aimed at their respective local markets.

The following tables set forth the Company's consolidated shipments and net sales by region for the periods indicated:

Consolidated Shipments by Region of Origin of Shipment	**Year ended December 31,**		
(percent)	**2007**	**2006**	**2005**
TOTAL (in thousands of tonnes)	17,159	14,890	12,860
Brazilian operations	41.0%	44.5%	49.8%
Domestic	28.5%	28.4%	27.3%
Export	12.5%	16.1%	22.5%
North American operations	40.5%	40.5%	44.5%
Latin American operations (except Brazil)	13.1%	10.4%	5.7%
Europe	5.4%	4.6%	—

Net Sales

Consolidated Net Sales by Region	**Year ended December 31,**		
(percent)	**2007**	**2006**	**2005**
TOTAL (in millions of US$)	15,814	11,844	8,894
Brazilian operations	42.1%	45.2%	50.4%
North American operations	36.7%	37.7%	43.8%
Latan American operations (except Brazil)	10.9%	9.1%	5.8%
European operations	10.3%	8.0%	—

Brazilian Operations

General

The Company's Brazilian operations accounted for 41.0% of overall Gerdau shipments. Brazilian sales amounted to 7.0 million tonnes, of which 4.9 million tonnes were delivered to the domestic market and 2.1 million tonnes to the export market in 2007.

Gerdau's Brazilian operations are divided into the following segments: Brazil Long Steel Products, Specialty Steel Products (which as from 2006 also includes specialty steel operations outside Brazil) and Gerdau Açominas (Ouro Branco mill).

In 2007, approximately 12.2% of sales in Brazil was distributed through Comercial Gerdau, the Company's largest distribution channel with 68 stores throughout Brazil, 14 fabricated reinforcing steel facilities and 4 flat steel service centers, serviced more than 100,000 customers in 2007. Another important distribution channel is the network of almost 21,000 sales channels to which Gerdau sells its products, giving it a comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are channeled through Company employees and authorized representatives working on commission.

Gerdau's Brazilian operations minimize delays by delivering products directly to customers through third-party companies, under Gerdau's supervision. Sales trends in both the domestic and export markets are forecasted monthly based on historical data of the three preceding months. Gerdau's Brazilian operations use their own information system to remain current on market developments so that they can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets, and its ability to monitor and optimize inventory levels in the light of changing demand, as key to its success.

Gerdau Açominas has specific operational features. The products are usually sold to rolling mills and to companies that use slabs, billets, blooms and ingots as raw material for their finishing lines such as shipbuilding, forging and mechanical. Gerdau Açominas also produces its own finished products such as high quality wire rod and sections. These products are delivered to the customers' port of destination or directly to the customers' plant facilities.

Specialty steel products are sold through Gerdau Aços Especiais Brazil. This subsidiary operates in the specialty steel market and its sales force and production facilities are independent of the Brazilian long steel business unit. These units, in partnership with their customers, produce engineering steel, tool steel and stainless steel that is sold to almost 240 clients. About 72.0% of its sales go to the automotive industry. In order to meet the continuous need for innovation, they are constantly developing new products, such as micro-alloyed steel for diesel engines with high power and low emissions, clean steels for application in bearings, steels with improved machining characteristics, which allow higher machining speeds and lower tooling replacement, among others. Gerdau Aços Especiais Brazil has a 40.0% stake in Corporación Sídenor, a Spanish specialty steel company which in turns controls Aços Villares, a Brazilian specialty steel producer.

Retail

The Company's Brazilian operations sell its products nationwide through the Comercial Gerdau network of 68 stores, 14 fabricated reinforcing steel facilities and 4 flat steel service centers. In addition to Gerdau products, Comercial Gerdau resells flat products produced by other companies in Brazil. In 2007, domestic market sales of flat steel products amounted to 239,049 tonnes.

Exports

The Company has been exporting a larger part of its production since 2003 following the consolidation of its Brazilian operations. Due to a stronger domestic market in 2007, there were some reallocation of sales from exports to the domestic market. In 2007, exports accounted for 30.6% of the Company's Brazilian operations total shipments. Export activities are coordinated by the sales channel responsible for selling products directly to end overseas users and indirectly through trading companies. Sales are negotiated worldwide (i) primarily CIF (Cost Insurance and Freight) and (ii) guaranteed by sight letters-of-credit issued by customers through first class European and American banks.

The Company's Brazilian exports generated US$1.4 billion in revenues in 2007. Exports from Brazilian operations totaled 2.1 million tonnes, a decrease of 10.3% compared to 2006 due to the increase of sales (15.5%) in the domestic market. The export strategy has allowed Gerdau to develop its client base in a more evenly distributed manner throughout the world with exports going to Africa, Europe, Latin, Central and North America and Asia. Exports to Latin America were responsible for 24.0% of total exports in 2007, against 29.0% in 2006. Exports to Asia increased from 23.0% in 2006 to 26.0% in 2007.

As exports from the Company's Brazilian operations have increased, Gerdau has been making efforts to improve its logistics strategies to overcome Brazilian infrastructure limitations. In 2007, Brazilian exports were dispatched to 39 countries aboard 212 ships using the services of 15 different ports.

The following table sets forth the Company's consolidated exports by its Brazilian operations by destination, for the periods indicated:

Consolidated Exports (percent) by Destination	**Year ended December 31,**		
	2007	**2006**	**2005**
Total including shipments to subsidiaries (in thousands of tonnes)	**2,643**	**2,951**	**2,989**
Africa	12%	9%	8%
Central America	15%	14%	12%
North America	13%	16%	5%
South America (excluding Brazil)	24%	29%	19%
Asia	26%	23%	44%
Europe	10%	9%	12%

North American Operations (excluding Mexico)

The Company operates in North America through its majority-owned subsidiary Gerdau Ameristeel. The Company believes that Gerdau Ameristeel is the second largest mini-mill steel producer in North America with annual manufacturing capacity of over 10.4 million tonnes of mill finished steel products. Through a vertically integrated network of 18 steel units and one 50.0%-owned joint venture for the operation of a mini-mill, 19 scrap recycling facilities and 14 downstream operations (including three 50.0%-owned joint ventures), Gerdau Ameristeel primarily serves customers in the eastern half of the U.S. and Canada. Gerdau Ameristeel's products are generally sold to steel service centers, to steel fabricators, or directly to original equipment manufacturers, for use in a variety of industries, including construction, automotive, mining, cellular and electrical transmission, metal building manufacturing and equipment manufacturing. Over 90.0% of the raw material feed for the mini-mill operations is recycled steel scrap, making Gerdau Ameristeel the second largest steel recycler in North America.

Gerdau Ameristeel is organized with two business unit segments: mills and downstream. The mills segment consists of 15 steel units in the U.S. and three in Canada. This segment manufactures and markets a wide range of steel products, including reinforcing steel bars (rebar), merchant bars, structural shapes, beams, special sections and coiled wire rod. The mills segment also produces rebar, merchant, rod and special bar quality products used by the downstream segment and transfers these products at an arm's-length market price to the downstream segment. The downstream segment is secondary value-added steel businesses and consists of rebar fabrication, railroad spikes, cold drawn products, super light beam processing, elevator guide rails, grinding balls, wire mesh and collated nails.

Gerdau Ameristeel's strategy is to have production facilities located in close proximity to customers' job-sites so quick delivery times are provided to satisfy their reinforcing steel needs and construction schedules. In 2007, Gerdau Ameristeel sold products to over 1,500 customers.

In general, sales of mill finished products to U.S. customers are centrally managed by the Tampa sales office and sales to Canadian customers are managed by the Whitby sales office. The Company has a sales office in Selkirk, Manitoba, for managing sales of special sections. Metallurgical service representatives at the mills provide technical support to the sales group. Sales of the cold drawn and super light beam products are managed by sales representatives located at their respective facilities. Fabricated rebar and elevator guide rails are generally sold through a bidding process in which employees at the Company's facilities work closely with customers to tailor product requirements, shipping schedules and prices.

The Company's Canadian operations sell a significant portion of their production into the U.S.

Latin American Operations (excluding Brazil)

General

Latin American units (excluding Brazil) sold 2.2 million tonnes of finished products in 2007, representing a 45.5% increase compared to 2006. This is primarily due to the consolidation of companies acquired during that period in Mexico and Venezuela.

Chile

The Company believes that Gerdau AZA has approximately a 31.0% share of the Chilean long steel market. Since the end of 2000, Gerdau AZA has had a business unit known as *AZAonLine*, which services customers in Chile through the Internet. This was the first e-commerce initiative in the steel sector in Chile. Customers can track their orders on the Internet, together with product inventories and credit and payment status. They can also access their purchase records as well as generate quality certificates and place orders. Gerdau AZA sells its products to more than 150 clients, which are distributors and end-users.

Uruguay

The Company believes that Gerdau Laisa has approximately an 80.0% share of the long steel products market in Uruguay. There are approximately 280 registered customers classified as retail, wholesale and end-consumers, which distribute its products all over the country. Uruguayan customers can also use an e-business channel.

Argentina

The results of operations of Sipar Aceros were consolidated into the Company's results beginning in the fourth quarter of 2005 as a result of the acquisition of an additional stake. The Company believes that Sipar has approximately a 19.0% share of the Argentine market and has almost 1,000 clients. The company sells its products directly to end-users (construction companies and industries) or through distributors to the domestic market.

Colombia

Diaco and Sidelpa, were acquired in September 2005 and December 2005, respectively, which the Company believes have a combined 39.0% stake in the Colombian steel market. These companies sell their products through more than 225 distributors and have more than 2,700 clients (end-users) in civil construction, industry and others.

Peru

Siderperú was acquired in June of 2006 and which the Company believes it has a market share of approximately 45.0% in the long products segment. The company sells its products to more than 250 clients from the construction, industry and mining sectors and has more than 250 distributors.

Mexico

Grupo Feld S.A. de C.V., located in Mexico City, Mexico, was acquired in March of 2007. This holding company owns 100.0% of the following companies: Siderúgrica Tultitlán, S.A. de C.V.; Ferrotultitlán, S.A. de C.V.; and Arrendadora Valle de Mexico, S.A. de C.V. and the Company believes has a market share of approximately 8.0% in the long products segment. The company sells its products to 60 clients and distributors from the construction and industry sectors.

Dominican Republic

In May 2007, Gerdau Group signed a strategic alliance with Industrias Nacionales, C. por A. (INCA), a company headquartered in Santo Domingo, Dominican Republic. INCA is a long steel rolling mill company which produces mainly concrete reinforcing bars and the Company believes has a market share of approximately 50.0% in the steel market in the Dominican Republic. INCA also produces pipes and PVC connections. The company sells its products to more than 1,350 clients and to 25 distributors.

Venezuela

Sizuca - Siderúrgica Zuliana, C.A., located in Ciudad Ojeda, Venezuela, was acquired in June 2007. The Company believes that it has a market share of approximately 12.0% in the Venezuelan steel market. The company sells its products to 25 clients and distributors.

Other International Operations

Corporación Sídenor

Gerdau maintains a presence in European Union through Corporación Sídenor, which sells specialty steel to the whole continent. Corporación Sídenor has a market share of 9.8% in the European Union. Sidenor has more than 450 clients located mainly in Spain, France, Germany and Italy.

Terms of Sales and Credit Policy

The Company's Brazilian sales are usually made on a 21/28-day settlement CIF (Cost, Insurance and Freight) basis. Comercial Gerdau, the retail arm of Gerdau in Brazil, sells on a 26-day settlement basis, mainly CIF.

Brazilian customers are subject to a credit approval process. The concession of credit limits is controlled by a corporate-level system (SAP R/3), which can be accessed by all sales channels. The credit and collection department is responsible for credit evaluation, definition and monitoring in accordance with the limits policy. This policy has the active participation of the client sales channels officers.

At Comercial Gerdau, in particular, the criteria for retail sales also include practices such as the use of credit cards serviced in Brazil.

Gerdau Açominas' exports are guaranteed via letter of credit and/or pre-payment before the product is shipped. Exceptionally, exports to Gerdau's subsidiaries may be sold on credit at ongoing market interest rates.

As a result of the implementation of these policies, the Company's provision for doubtful accounts was an insignificant percentage of its consolidated accounts receivable (less than 1.6%) on December 31, 2007. Thanks to the implementation of the Integrated Risk Management Project, Gerdau has improved its credit approval controls and enhanced the reliability of its sales process through the use of risk indicators and internal controls.

Gerdau Ameristeel's credit terms to customers are generally based on customary market conditions and practices.

Gerdau Ameristeel's business is seasonal with orders in the second and third quarters tending to be stronger than those of the first and fourth quarters, due primarily to weather-related slowdowns in the construction industry.

Corporación Sídenor has a Risk Committee which is responsible for the customer credit analysis.

Production Process

Overview

In Brazil, the Company has a decentralized production process, using both mini-mills and integrated facilities. The Company has generally utilized the mini-mill model for the production of steel products outside of Brazil.

Mini-Mills

The Company operates 39 mini-mills in Brazil and outside of Brazil. Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. After loading the furnace with a preset mixture of raw material (i.e., steel scrap, pig iron and sponge iron), electric power is applied in accordance with a computer controlled melting profile. The Company's mini-mill production process generally consists of the following steps: obtaining raw material, melting, casting, rolling and drawing. The basic difference between this process and the integrated mill production process described below is found in the first processing phase, i.e., the steelmaking process. Mini-mills are smaller plants than integrated facilities and the Company believes that they provide certain advantages over integrated mills, including:

- lower capital costs,
- lower operating risks due to non-concentration of capital and installed capacity in a single production plant,
- proximity of production facilities to raw-material sources,
- proximity to local markets and easier adjustment of production levels, and
- more effective managerial structure due to the relative simplicity of the production process.

Integrated Facilities

The Company operates four integrated mills in Brazil. The Ouro Branco mill is the largest integrated facility the Company operates. Although it produces steel from the blast furnace, this mill has some of the advantages of a mini-mill since it is located very close to its main suppliers and the ports from which the Company exports most of its production.

The Company's steelmaking process in integrated facilities consists of four basic processes: raw material preparation, pig-iron production, steel production and production of crude steel (billets, blooms and slabs). In the primary stage of iron making, sinter (a mixture of iron ore and limestone), coke and other raw materials are consumed in the blast furnace to produce pig iron. Coke acts as both fuel and as a reducing agent in this process. The Company's blast furnaces have a global installed capacity of 5.3 million tonnes of liquid pig iron per year.

The pig iron produced by the blast furnace is transported by rail to the desulphurization unit to reduce the sulfur content in the steel. After the desulphurization process, the low-sulfur pig-iron is transformed into steel through LD-type oxygen converters. The LD steelmaking process utilizes molten pig iron to produce steel by blowing oxygen over the metallic charge inside the converters. The process does not require any external source of energy, as it is fully supplied by the chemical reactions that occur between the oxygen and the molten pig iron impurities. The LD steelmaking process is presently the most widely used in the world.

Some mills further refine the LD converters' output with ladle furnaces. Liquid steel is then poured into ingot molds and allowed to solidify into ingots. The molds are stripped away and the ingots are transported by rail to the soaking pits, where they are heated to a uniform rolling temperature. The heated ingots are rolled in the primary rolling mill to produce slabs and blooms, some of which are rolled in the secondary rolling mills to produce blooms and billets. At this point in the process, the Company either sells a portion of the product to other industries where the rolling process must take place in order to have steel ready for its final use, or the Company performs the rolling process on its own transforming the product into heavy structural shapes or wire rods.

Raw Materials

General

Gerdau's production processes are mainly based on the mini-mill concept, with mills equipped with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. The principal raw material used at these mills is essentially steel scrap and a mixture of pig iron and steel scrap in the Brazilian mills. The component proportions of this mixture may change in line with price and availability at the time of production so as to optimize raw material costs, the ratio of steel scrap to pig iron varying from 60.0%-40.0% to 90.0%-10.0%.

The main metallic input used by the Company's mills in the U.S. is steel scrap. In the event of steel scrap prices exceeding acceptable levels, 2004 being a case in point, the mills seek to modify input sources accordingly.

The Company's Brazilian mills use scrap and pig iron purchased from local suppliers. Most of the pig iron used in the steel-making process is produced at Gerdau Contagem in the state of Minas Gerais. In 2007, 20.0% of Gerdau Brazil's mini-mills' solid pig iron requirements were produced internally.

Due to the nature of the raw materials employed in its processes, Gerdau has medium and long-term supply contracts with scrap generators and short-term contracts with some suppliers for its mini mills in Brazil, acquiring scrap as necessary for the mills' needs. Scrap is priced in Brazilian *reais* and input prices are not therefore directly affected by currency fluctuations.

Due to its size, the Ouro Branco mill utilizes long-term contracts to guarantee supplies of raw materials. The unit's main raw materials include: (i) coal, imported from Canada, Australia and the U.S., anthracite from Vietnam and coke petroleum purchased from Petrobras, (ii) ferroalloys, of which 90.0% is purchased in the domestic market; and (iii) iron ore, which is supplied by large, medium and small sized mining companies, some of them strategically located close to the plant. These three items account for more than 40.0% of the total production costs of Gerdau Açominas in 2007. In addition, a significant portion of the iron ore consumed is obtained directly from the Varzea do Lopes and Miguel Burnier mines owned by Gerdau Açominas.

Latin American units (excluding Brazil), do not maintain long-term contracts with suppliers and are thus exposed to market fluctuations.

Gerdau Ameristeel has consistently obtained adequate supplies of raw materials and is not dependent on any one supplier. It believes there are an adequate number of alternative suppliers in the marketplace should it need to replace an existing one.

Metallic Inputs

Gerdau's main metallic input is steel scrap, which is used in electric arc furnaces. Pig iron, iron ore (used in blast furnaces and in one Direct Reduction Iron - DRI plant), and ferroalloys are also important.

Although international steel scrap prices are determined by the U.S. domestic market (since the U.S. is the main scrap exporter), the price of steel scrap in Brazil varies from region to region and is influenced by demand and transportation costs. Gerdau is the largest consumer of steel scrap in Brazil with more than 3,400 scrap suppliers.

Steel Scrap

There are two broad categories of steel scrap: (i) obsolescence scrap which is steel from various sources, ranging from tin foil cans to car bodies and white goods and (ii) industrial scrap, which is essentially factory steel cookie cutouts, steel turnings, and even scrap generated by the Company's production processes themselves. In Brazil the use of scrap in the electric arc furnaces varies between obsolescence scrap and industrial scrap as follows: industrial, between 30.0-40.0%; obsolescence, between 70.0-60.0%. The North American plants use mainly industrial scrap.

Gerdau has purchasing power in all regions of Brazil. It operates scrap yards in its mills and in strategically situated locales. To make the purchase in more distant locations viable, it uses moving presses, which are moved to the suppliers, crushing the scrap for subsequent transport.

The price of scrap in Brazil varies by region, depending upon local supply and demand, and transportation costs. The southeast region is the most industrialized in the country, generating the greatest volume of scrap. Due to the concentration of players in this region, the competition is most intense.

Gerdau Metálicos is the main division that supplies scrap, pig iron, coal and iron ore to the industrial units, and is the Latin American leader in steel scrap recycling. It reuses millions of tonnes of Brazilian scrap every year, accounting for significant gains through increasingly competitive operating costs.

Gerdau Metálicos has stowage yards (collection points) for scrap in strategic locations throughout Brazil and uses several mobile presses that travel the country, relying on processing equipment like presses, scissor presses and mobile scissor presses preparing scrap for transportation to its mills. Every Gerdau Metálicos industrial unit has a recycling yard with state-of-the-art equipment to process scrap using presses and stationary and mobile shears. The Company also has five shredders, including a mega-shredder at Gerdau Cosigua in Rio de Janeiro, capable of processing 200 car bodies of chopped up scrap.

The price of scrap in Latin America (excluding Brazil) varies according to demand, transportation costs and by region. There are more than 295 steel scrap suppliers in Chile, more than 250 suppliers in Uruguay, more than 3,800 in Colombia, 36 in Peru and 60 in Venezuela.

Steel scrap is Gerdau Ameristeel's primary raw material. Steel scrap is a commodity, which availability varies according to economic activity, seasonability, export levels, and price fluctuations. Gerdau Ameristeel's Jackson, Jacksonville, St. Paul, Wilton, Whitby, Midlothian and Petersburg mills all have on-site dedicated scrap processing facilities, including shredder operations that supply a significant portion of their scrap requirements. Gerdau Ameristeel MRM Special Sections receives a significant amount of its scrap from Manitoba Metals Recycling and the North Dakota scrap collection and processing yards. Gerdau Ameristeel has a total of 19 scrap recycling locations, although given that not all of the scrap that it consumes is sourced from its own scrap yards, it buys residual requirements in the market either directly or through dealers that source and aggregate scrap.

All of Gerdau Ameristeel's production facilities in North America are mini-mills where results of operations are closely linked to the cost of steel scrap and scrap substitutes, the primary mini-mill input. Steel scrap prices are relatively higher during winter months due to the impact of weather on collection and supply efforts. Approximately half of all steel products in North America are currently made in electric arc furnaces using steel scrap. Prices for steel scrap are subject to market forces largely beyond the Company's control including demand by U.S. and international steel producers, freight costs and speculation. Increasing world wide steel scrap consumption, especially in China, has placed significant upward pressure on the price of steel scrap. The combination of a weaker U.S. dollar, strong global demand for steel scrap and lower production of domestic steel scrap due to a weaker domestic manufacturing economy have reduced the domestic steel scrap supply resulting in prices which are currently at a ten-year high. Metal spread, the difference between mill selling prices and scrap raw material cost, is also currently well above previous ten-year highs.

Corporación Sídenor does not maintain long-term contracts with scrap suppliers and has more than 70 scrap suppliers with the main type of scrap used in the Spanish operations being industrial.

Pig Iron and Sponge Iron

Brazil is an exporter of pig iron. Most Brazilian pig iron is produced in the state of Minas Gerais by a large number of small producers. Pig iron is a natural substitute for scrap, and in Brazil, is an important component of the metallic mix for production of steel in the mills. In Brazil, the price of pig iron is related to internal and external demand to the cost of charcoal, the most volatile cost item in the production of pig iron. The Company produces sponge iron at its industrial plant in the state of Bahia (Gerdau Usiba), the entire production of which is used internally to manufacture steel products.

The Company does not have any Brazilian contracts for the supply of pig iron, negotiating amounts and delivery conditions directly with suppliers. The price of pig iron may fluctuate in line with its international market price, given that a large portion of production in Brazil is exported.

Scrap availability is a major factor in Gerdau Ameristeel's ability to operate. Sponge iron, and pig iron can be a substitute for a limited portion of the steel scrap used in electric arc furnace steel production. Gerdau Ameristeel does not employ significant quantities of scrap substitutes in its mini-mills except for pig iron used for its chemical properties in the Beaumont facility, and to manufacture certain special sections.

Gerdau also consumed pig iron from Margusa, a solid pig iron producer owned by the Company until December 28, 2007, in the Northeast of Brazil located close to the maritime port facilities, with an annual installed plant capacity of 210,000 tonnes. Gerdau used Margusa's output to supply its plants in the Northeast of Brazil, although a smaller quantity has been exported to some foreign Gerdau steel units. On December 28, 2007, Gerdau S.A. exchanged all of its Margusa shares for all of the shares of Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda (Aplema). Among Aplema's assets is a solid pig iron producer with an annual installed capacity of 230,000 tonnes of pig iron located in the State of Minas Gerais. Part of the pig iron used at Gerdau's mills is also sourced from other companies. In 2007, 20.0% of Gerdau Brazil's mini-mills solid pig iron requirements was produced internally.

Iron Ore

Gerdau's Brazilian operations use iron ore to produce pig iron at its Barão de Cocais and Divinópolis mills, in the state of Minas Gerais, and sponge iron at its Gerdau Usiba mill in Bahia. Gerdau Contagem and Margusa also use iron ore in order to produce solid pig iron. The Company has acquired iron ore from MBR, Companhia Vale do Rio Doce and other smaller suppliers located in the State of Minas Gerais near the ore mines.

Gerdau Açominas uses fine grain quality iron ore (sinter feed and pellet feed), which is transformed into sinter in a sinter unit, as its main metallic input in the steel production. Lump ore and iron ore pellets are directly loaded into the blast furnace to increase productivity. Raw material suppliers located adjacent to the plant reduce transportation and storage costs. The molten pig iron produced in the blast furnace is the main raw material used in the melt shop. In 2007, metallic inputs were composed of 82.6% of molten pig iron, 12.3% of steel scrap and 5.1% of solid pig iron.

Other Inputs

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau's Brazilian operations use other inputs to produce steel such as ferroalloys, electrodes, furnace refracting materials, oxygen, nitrogen and other industrial gases and limestone, albeit in smaller amounts. All of these inputs are readily available in Brazil. Additional inputs associated with the production of pig iron are charcoal, used in blast furnace mills, and natural gas, used at the DRI unit.

Gerdau Açominas' important raw materials and inputs also include coking coal. Coal is used in the production of coke, the main reduction agent for sinter, iron ore and pellets, in the blast furnace. Pulverized Coal Injection (PCI) is also used to reduce consumption, increase productivity and consequently the cost of pig iron. At the steel works, ferroalloys are used for the production of steels with special characteristics. Oxygen, nitrogen and argon are also used in some processes and supplied by an on-site company. The gas resulting from the production of coke, pig iron and steel, having been cleaned, is used as fuel for several processes and while also generating electric power for the plant.

The North American operations also use additional inputs. Various domestic and foreign companies supply other important raw materials or operating supplies required for the business, including refractory materials, ferroalloys and carbon electrodes that are readily available in the open market. Gerdau Ameristeel has obtained adequate quantities of these raw materials and supplies at competitive market prices thus permitting efficient mill operations. The Company is not dependent on any one supplier as a source for any particular material and believes there are adequate alternative suppliers available in the marketplace if the need to replace an existing one arises.

Information on the Extent of the Company's Dependence

The Company is not dependent on patents or licenses, industrial, commercial or financial contracts (including contracts with customers or suppliers) or new manufacturing processes that are material to the Company's business or profitability.

The Company has a policy of diversifying its suppliers so that it can replace them in the event of a breach of contract without affecting the Company's operations.

In the case of a power outage, there are no alternative supply options available at most Gerdau mills due to the high volume and tension required for the operation of these plants. In such cases (as occurred in 2001, in Brazil, when the federal government set targets for reducing consumption), the measures and their consequences are discussed with the respective energy concessionaires while operating capacity is kept at emergency levels to protect staff and equipment.

In the event of rationing, decisions and procedures will be implemented by the Brazilian government's regulatory agency. These may have a materially adverse impact on the Company's results, with a consequent reduction in production in the light of the availability of electricity and readjustments to delivery schedules. Although such problems are not common in Brazil, some small Gerdau units may choose, as an alternative, to use generators to compensate for the shortage of energy. During the 2001 period of electric power rationing, Gerdau overcame the crisis by reallocating production among its several industrial units and by rationalizing the use of electricity. These measures resulted in efficiency and productivity gains which were incorporated into the production process after the critical period ended.

In terms of natural gas, the units of Rio Grande do Sul, Paraná and São Paulo are supplied by imported natural gas, through GASBOL (Brazil-Bolivia Pipeline), whereas the other units are supplied by domestic natural gas. In the event of natural gas rationing, it would be possible to adapt the equipment for use of fuel oil and LPG (Liquefied Petroleum Gas).

Energy Requirements

Overview

Steel production is an energy intensive process, especially in EAF mills. Electric energy and, to a lesser extent, natural gas used especially in mills to re-heat billets, are important components of steel production costs.

Brazil

Steel production is a process that consumes large amounts of electric power, especially in electric arc mills. Electric energy constitutes an important cost in the production process, along with natural gas consumption, which is utilized in furnaces to re-heat billets in rolled steel production.

In Brazil, the Company's units have had long-term relationships with suppliers of electric energy and do not depend on a single contract. Energy is currently supplied to the Company's industrial units under two types of contracts:

Contracts within the Regulated Contractual Environment in which the Company is a "Captive Consumer," exist at the following units: Riograndense, Gerdau Aços Especiais Brazil, Guaíra, Usiba and Açonorte. They involve state-owned companies or holders of public government concessions. In these contracts, demand and consumption are negotiated between the parties and the rates are defined by ANEEL.

Contracts within the Contractual Environment in which Gerdau is a "Free Consumer" are utilized at the following units: Araçariguama, Cosigua, Cearense, Ouro Branco, Divinópolis and Barão de Cocais. These units have energy purchasing agreements directly with electric power generating companies and/or sellers, with prices that are defined and adjusted according to rules that are pre-established by the parties. The transmission and distribution rates are regulated by ANEEL and revised annually. Ouro Branco generates 70.0% of its energy needs internally, using gases generated in the steel-making process. This keeps its exposure to the energy market significantly lower than that of the mini-mills.

Gerdau Açominas' generating capacity was increased by 50.0% in 2007, within the unit's expansion project. Construction of the Caçu and Barra dos Coqueiros hydroelectric power plants in the state of Goiás is also currently underway, with a total of 155MW of installed capacity. These power plants are expected to begin operations in early 2010, making all their power available to the units located in the southeast region of Brazil.

The supply of natural gas to all units is regulated and performed under long-term contracts. The Barão de Cocais and Divinópolis units do not have access to a supply of natural gas.

North America

In North America, there are two kinds of energy markets: regulated and deregulated. In the regulated market, agreements are established with local electric power concessionaires and the rates are defined for each region. In the deregulated market, the price of power can change every 5 minutes (spot market price) to reflect the actual cost of electric energy production. Although deregulation of both the natural gas and wholesale electricity markets may create opportunities to reduce costs as a result of market competition, the prices of both these forms of energy have recently become more volatile and may remain so. The Company has no long-term agreements with natural gas suppliers and are, therefore, subject to market variations and price fluctuations.

Other

In Chile, Peru, Colombia and Uruguay, both electric power and natural gas are purchased under long-term agreements. In Colombia, the electricity and natural gas agreements were renewed in 2006. In Chile, Gerdau AZA renegotiated its electric power agreement in 2007 and has used diesel oil instead of natural gas in the billet reheating furnaces for rolled steel production during rationing periods in Argentina (peak hours in winter).

In Spain, the market is undergoing a process of deregulation, and the large consumers of electricity are expected to begin purchasing the same exclusively in the free market in 2008.

The Company is analyzing alternatives for generating power internally in house in all the countries where it operates.

Concession Agreements

In March of 2007, ANEEL transferred the concession for a hydroelectric complex to the Company's controllers, Gerdau Aços Longos (Concession Agreement no. 089/2002). The concession is for the production of electric power in the Caçu and Barra dos Coqueiros complex consisting of two hydroelectric power plants to be built at Rio Claro, between the towns of Caçu and Cachoeira Alta, in the southeast region of the state of Goiás.

The project will have an installed capacity of 155 MW (Caçu with 65 MW and Barra dos Coqueiros with 90 MW). The Company expects construction to be completed in early 2010, at an estimated investment of US$250 million.

In February of 2008, ANEEL transferred to the Gerdau Group the concession to generate electric power at the São João - Cachoeirinha hydroelectric complex, composed of two hydroelectric power plants to be built on the Chopin River, in the towns of Honório Serpa and Clevelândia, in the State of Paraná. The project will have 105 MW of installed power (São João with 60 MW and Cachoeirinha with 45 MW) and construction should be concluded in early 2011. The investment is estimated at US$173 million.

Transportation

Transportation costs are an important component of most steel-mill businesses and represent a significant factor in maintaining competitive prices in the export market. The mills in Brazil and North America are strategically located. It is the Company's belief that the proximity of its mills to the sources of raw material and to the principal consumer markets gives the Company a competitive advantage in serving its customers and in obtaining competitive supply costs.

In North America and Brazil, the Company depends on highway freight to receive raw materials and to deliver its steel products. Therefore, the Company has developed long-term relationships with specialized freight carriers to ship its steel products. In addition, as part of its logistics strategy, the Company has acquired an interest in MRS Logística, Brazil's principal railway company, which operates the railroad connecting São Paulo and Rio de Janeiro, Brazil's main economic centers. The Company believes that its knowledge of the freight market plus its proximity to its customers will enable it to enjoy more advantageous shipping costs, compared with other shipping alternatives available in the market. Since the Company has steel mills located in all the geographic regions of Brazil, it can easily deliver its products at lower freight costs than those of its competitors, which operate with a smaller number of installations. The Ouro Branco steel mill, for example, which is located in a region of the state of Minas Gerais rich in iron ore and near its main economic centers, is served by a vast network of highways and railroads, including Ferrovia Centro-Atlântica S.A., the Estrada de Ferro Vitória-Minas Railroad and MRS Logística's railroads.

The Company's steel products are shipped by train, truck and boat to customers throughout Brazil. Most of the Company's exports are shipped by highway or railroad to port terminals and sent directly to customers. The Company utilizes port terminals in more than 20 cities with maritime ports along Brazil's coast, but most of its exports are shipped from its steel-making installations at the Port of Praia Mole, in Vitória, in the state of Espírito Santo, and its terminal in Salvador, in the state of Bahia. The Port of Praia Mole, which the Company operates jointly with the Usiminas and Arcelor Mittal steel companies, is considered the most efficient and productive port in Brazil and was built specifically to export steel products and import raw materials, such as coke-producing coal. The Company's installations at the Port of Praia Mole consist of two terminals-one for exporting and one for importing.

In North America, competition among non-regional steel producers is limited by the high cost of freight in relation to the value of the steel products. The proximity of customers in relation to product inventories, together with the competitive freight costs and low-cost manufacturing processes, are essential elements in maintaining profit margins.

Quality control

The Company utilizes a quality control system that was developed in house, which applies tests in relation to product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies are available to guarantee the Company's high standards of quality. The Company's specialists make random visits to its customers to check on the quality of the products exported by the Company and thus guarantee user satisfaction in relation to products purchased indirectly.

In Brazil, nine of the Company's industrial installations, including the Ouro Branco and Gerdau Aços Especiais Brazil steel mills, have ISO 14000 certification. In addition, AZA, in Latin America, and 13 installations in North America also have ISO 14000 certification.

Properties, Plants and Equipment

Facilities

Mills

Gerdau's principal properties are for the production of steel, rolled products and drawn products. The following is a list showing the location, capacity and type of installation, as well as the types of products manufactured at December 31, 2007:

BRAZIL

	Installed Capacity				
PLANTS	**Pig Iron/ Sponge Iron**	**Crude Steel**	**Rolled Products**	**Equipment**	**Products**
BRAZIL	*5,510*	*11,435*	*6,800*		
LONG STEEL					
Açonorte	—	300	250	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Agua Funda	—	—	100	Rolling Mill	Rebar and merchant bars
Barão de Cocais (1)	330	350	200	Integrated/blast furnace, LD converter and rolling mill	Rebar and merchant bars
Cearense	—	200	160	EAF mini-mill, rolling mill	Rebar and merchant bars
Cosigua	—	1,600	1,400	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Divinópolis (1)	430	600	530	Integrated/blast furnace, EOF converter and rolling mill	Rebar and merchant bars
Guaíra	—	560	180	EAF mini-mill, rolling mill	Billet, rebar, merchant bars
Riograndense	—	480	520	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Usiba (1)	—	560	430	Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod, drawn products
São Paulo	—	900	600	EAF mini-mill, rolling mill	Billets and rebars
Contagem	240	—	—	Blast furnace	Pig iron
Margusa(2)	210	—	—	Blast furnace	Pig iron
AÇOMINAS					
Ouro Branco (1)	4,300	4,500	970	Integrated with blast furnace	Billets, blooms, slabs, wire rod and heavy structural shapes
SPECIALTY STEEL					
Piratini	—	390	490	EAF mini-mill, rolling mill	Specialty steels
Corporación Sidenor	—	995	970	EAF mini-mill, rolling mill	Specialty steels

(1) While EAF (electric arc furnace) mills produce crude steel from raw materials such as steel scrap or pig iron, a mill with a blast furnace or DRI (direct reduction iron) produces pig iron or sponge iron for use in the production of crude steel, with iron ore and natural gas being the main raw materials.

(2) On December 28, 2007, Gerdau S.A. and Grupo Gerdau Empreendimentos Ltda. exchanged all of their Margusa shares for all of the shares of Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda (Aplema).

ABROAD

PLANTS	Installed Capacity Pig Iron/ Sponge Iron	Crude Steel	Rolled Prodicts	Equipment	Products
EUROPE SPECIALTY STEEL		*1,150*	*1,220*		
Corporación Sidenor	–	975	825	EAF mini-mill, rolling mill	Specialty steels
GSB Acero		175	395	EAF mini-mill, rolling mill	Specialty steels
LATIN AMERICA	*350*	*2,265*	*2,610*		
AZA	–	460	450	EAF mini-mill, rolling mill	Rebar and merchant bars
Laisa	–	100	80	EAF mini-mill, rolling mill	Rebar and merchant bars
Diaco	–	515	650	EAF mini-mill, rolling mill	Rebar, merchant bars, and special bar quality (SBQ)
Sipar	–	–	260	Rolling mill	Rebar and merchant bars
Siderperú	350	540	640	EAF mini-mill, rolling mill	Rebar, merchant bars and slabs
Sizuca		300	200	EAF mini-mill	Rebar
Tultitlán		350	330	EAF mini-mill, rolling mill	Rebar, merchant bars and slabs
NORTH AMERICA	–	*9,955*	*10,350*	-	-
Beaumont	–	590	730	EAF mini-mill, rolling mill	Quality rod products
Calverty City			300	Rolling Mill	Merchant bars, medium structural channel and beams
Cambridge	–	330	290	EAF mini-mill, rolling mill	Rebar, merchant bars and special bar quality (SBQ)
Cartersville	–	780	580	EAF mini-mill, rolling mill	Merchant bars, structural shapes and beams
Charlotte	–	370	325	EAF mini-mill, rolling mill	Rebar and merchant bars
Jackson	–	610	540	EAF mini-mill, rolling mill	Rebar and merchant bars
Jacksonville	–	730	710	EAF mini-mill, rolling mill	Rebar and wire rod
Joliet	–	–	70	Rolling mill	Merchant bars, medium structural channel and beams
Knoxville	–	520	470	EAF mini-mill, rolling mill	Rebar
Manitoba	–	430	360	EAF mini-mill, rolling mill	Special sections, merchant bars and rebar
Perth Amboy	–	–	1,000	Rolling mill	Industrial quality rod products
Sand Springs	–	625	525		
Sayreville	–	730	600	EAF mini-mill, rolling mill	Rebar
St. Paul	–	520	420	EAF mini-mill, rolling mill	Rebar, merchant bars and special bar quality round ba rs
Whitby	–	900	730	EAF mini-mill, rolling mill	Structural shapes, rebar and merchant bars
Wilton	–	320	300	EAF mini-mill, rolling mill	Rebar and merchant bars
Texas	–	1,500	1,400	updated	
Virginia	–	1,000	1,000	updated	
GERDAU TOTAL	***5,860***	***24,805***	***20,980***	-	-

Mining Rights

Although the Company is primarly focused on the steel business, it has added to its business four mineral assets in order to have its own sources of minerals, through the acquisition of land and mining rights from the Votorantim Group. These mines are located in Miguel Bournier, Várzea do Lopes, Dom Bosco and Gongo Soco, near the Ouro Branco mill in the state of Minas Gerais. Initial surveys indicate potential iron ore reserves of 1.8 billion tonnes to detail the full potential of the mines, which are intended to provide feedstock to the Ouro Branco mill. The location of these mines in the state of Minas Gerais iron belt and in the vicinity of the Ouro Branco mill is expected to contribute to the long-term competitiveness of this unit.

Investment Programs

General

Gerdau approved, for the period between 2008 through 2010, approximately US$6.4 billion in expansions and improvements in mills in Brazil and abroad. Of this total, approximately 70% will be invested in mills in Brazil and the balance in mills abroad. Most of the investments will be made in the expansion of the integrated mill at Ouro Branco (Açominas), in which the installed capacity went from 3 to 4.5 million tonnes. This increase in capacity began in November 2007.

The following tables contain the breakdown of investment plan in $ millions and in thousand tonnes by region:

(in millions of US$)	2008	2009	2010	TOTAL
BRAZIL	1,105	1,955	1,375	4,435
ABROAD	405	853	681	1,939
North America	183	338	264	785
Latin America	141	416	301	859
Europe	81	99	116	295
TOTAL	1,510	2,808	2,056	6,374

(in thousands of tonnes)	Current Capacity*	2008	2009	2010	New Capacity
BRAZIL					
Crude steel	11,435	105	20	1,105	12,665
Rolling products	6,800	100	325	2,195	9,420
NORTH AMERICA**					
Crude steel	9,955	—	—	225	10,180
Rolling products	10,350	—	—	90	10,440
LATIN AMERICA					
Crude steel	2,265	630	165	955	4,015
Rolling products	2,610	265	225	580	3,680
EUROPE					
Crude steel	1,150	—	150	100	1,400
Rolling products	1,220	—	95	—	1,315
TOTAL					
Crude steel	24,805	735	335	2,385	28,260
Rolling products	20,980	365	645	2,865	24,855

* Installed capacity of SJK Steel Plant Limited (joint venture with Kalyani Group) is not included.

** Installed capacity of Chaparral Steel is included.

Significant Subsidiaries

General

The table below shows the main consolidated companies and investments maintained directly or indirectly by Gerdau on December 31, 2007 and 2006:

	Percentage interest (%)	
	2007	**2006**
Aceros Cox S.A. (Chile)	98	98
Gerdau Ameristeel Corporation (Canada) and its subsidiaries:	65	65
Ameristeel Bright Bar Inc. (USA)	65	65
Chaparral Steel Company (USA)	65	—
Gerdau Ameristeel MRM Special Sections Inc. (Canada)	65	65
Gerdau Ameristeel Perth Amboy Inc. (USA)	65	65
Gerdau Ameristeel Sayreville Inc. (USA)	65	65
Gerdau Ameristeel US Inc. (USA)	65	65
Sheffield Steel Corporation (USA)	65	65
Pacific Coast Steel Inc. - PCS (USA)*	36	36
Gerdau Açominas S.A. (Brazil)	92	89
Gerdau Aços Especiais S.A. (Brazil)	92	89
Gerdau Aços Longos S.A. (Brazil)	92	89
Gerdau América Latina Participações S.A. (Brazil)	89	89
Gerdau Aza S.A. (Chile)	98	98
Gerdau Comercial de Aços S.A. (Brazil)	92	89
Diaco S.A. (Colômbia)	57	57
Gerdau GTL Mexico, S.A. de C.V. (Mexico) and its subsidiaries	100	—
Siderurgica Tultitlan S.A. de C.V. (Mexico)	100	—
Ferrotultitlán, S.A. de C.V. (Mexico)	100	—
Arrendadora Valle de Mexico, S.A. de C.V. (Mexico)	100	—
Gerdau Internacional Emprendimentos Ltda. (Brazil) and its wholly		98
owned subsidiary Gerdau GTL Spain S. L. (Spain) and subsidiaries	98	98
Gerdau Laisa S.A. (Uruguay)	98	98
Maranhão Gusa S.A. – Margusa (Brazil)	—	89
Paraopeba - Fundo de Investimento Renda Fixa (Brazil)	95	95
Seiva S.A. – Florestas e Indústrias (Brazil)	97	97
Sipar Aceros S.A. (Argentina)	90	72
Sidelpa S.A. (Colombia)	95	95
Corporación Sidenor S.A. (Spain) and its subsidiaries**	40	40
Sidenor Industrial S.L. (Spain)	40	40
Forjanor S.L. (Spain)	40	40
GSB Aceros S.L. (Spain)	—	40
Aços Villares S.A. (Brazil)	23	23
Empresa Siderúrgica del Peru S.A.A. – “Siderperu” (Peru)	83	83
Siderúrgica Zuliana C.A. (Venezuela)	100	—

***** Gerdau Ameristeel holds an interest of 55% in PCS, and the Company holds an interest of 65% in Gerdau Ameristeel. Therefore, the Company’s indirect interest in PCS is 36% and PCS is being consolidated by Gerdau Ameristeel which in turn is consolidated by the Company.

****** The Company considers Corporación Sidenor a variable interest entity (“VIE”) as defined by FIN 46(R).

Chaparral Steel

On September 14, 2007, Gerdau Ameristeel acquired Chaparral Steel, for US$86.00 per share in cash, or

US$4.22 billion. Chaparral Steel is the second largest producer of structural steel in North America and also a major producer of steel bars. It operates two mini mills located in Midlothian, Texas and Dinwiddie County, Virginia. Chaparral has an annual installed capacity of 2.5 million metric tonnes of crude steel.

D&R Steel, LLC (D&R)

In July 2007, Gerdau Ameristeel acquired through its joint venture with Pacific Coast Steel, Inc. the assets of D&R Steel, LLC, a reinforcing steel contractor in Glendale, Arizona. D&R operates a reinforcing steel contracting business in Glendale that services the greater Southern Arizona marketplace including Phoenix, Scottsdale and Tucson. D&R has a fabrication facility with an annual capacity in excess of 30,000 tonnes per year.

Re-Bars, Inc.

In September 2007, Gerdau Ameristeel concluded the acquisition of Re-Bars, Inc. Located in Savannah, Georgia, which is a supplier of fabricated rebar with an annual installed capacity of around 2,000 metric tonnes.

Corsa Controladora, S.A. de C.V.

In October 2007, the Company signed a letter of intent for the acquisition of a 49% stake in Corsa Controladora, S.A. de C.V. (Mexico). Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors. Located in the city of Tlalnepantla, metropolitan region of Mexico City, Corsa is a mini-mill that produces long steel (light merchant bars) and has an annual installed capacity of 150,000 tonnes of crude steel and 300,000 tonnes of rolled products. The transaction was concluded on February 27, 2008.

Trefilados de Urbina S.A. – Trefusa

In October 2007, Gerdau announced that its Spanish subsidiary Corporación Sídenor, S.A. in which it has a 40.0% stake, concluded the acquisition of Trefilados de Urbina S.A.-Trefusa (Spain), a producer of special cold drawn steels located in Vitoria.

Enco Materials, Inc

In October 2007, Gerdau Ameristeel announced the acquisition of Enco Materials, Inc. Enco is a leader in the commercial construction materials market, including fabricated rebar, construction products, concrete forming and shoring material, as well as fabricated structural steel and architectural products. Headquartered in Nashville, Tennessee, Enco has eight facilities with fabrication capacity of approximately 50,000 tonnes located in Arkansas, Tennessee, and Georgia.

Quanex Corporation

On November 18, 2007, the Company entered into a final agreement for the acquisition of Quanex Corporation, which, through MacSteel, is the second largest producer of Special Bar Quality – SBQ in the U.S. and operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The company also operates six downstream operations in the states of Michigan (two), Ohio, Indiana (two) and Wisconsin. MacSteel has an installed capacity of 1.2 million tonnes of steel and 1.1 million tonnes of rolled products per year. The agreement does not include the business of Building Products of Quanex, which is an operation not related to the steel market. Quanex disclosed the spin-off of this business to the shareholders before the conclusion of the proposal for the acquisition.

The shareholders of Quanex approved the acquisition at a special shareholders’ meeting held on April 22, 2008, and on April 23, 2008, the Company concluded the acquisition. The acquisition price was US$1.46 billion, in addition to the assumption of debt and certain other liabilities. The acquisition is being financed with the Company’s working capital and short-term financings.

The operating companies that are fully consolidated or accounted according to the equity method in the financial statements of Gerdau S.A. are described below:

Gerdau Aços Longos and Gerdau Comercial de Aços

Gerdau Aços Longos S.A. produces common long steel and Gerdau Comercial de Aços S.A sells steel products in general. Gerdau Aços Longos has nine mills distributed throughout the country and has an annual installed capacity of 5.5 million tonnes of crude steel. Gerdau Comercial de Aços is responsible for 68 distribution steel centers throughout Brazil.

Gerdau Aços Especiais and Corporación Sídenor

Gerdau Aços Especiais is headquartered in Charqueadas, state of Rio Grande do Sul and has a consolidated annual installed capacity of 2.5 million tonnes of crude steel, including the annual installed capacity of Corporación Sídenor, which has operations in Brazil and in Spain.

Corporación Sídenor produces specialty steel and the Company believes it has a market share of 9.8% in the European Union.

Gerdau Açominas

Gerdau acquired a stake in Açominas, together with NatSteel and the Açominas Employee's Association in 1997. The Company increased its stake in Açominas, acquiring a controlling stake in 2001. Gerdau Açominas owns the Ouro Branco mill, located in the state of Minas Gerais. The Ouro Branco mill has an annual installed capacity of 4.5 million tonnes of crude steel and is responsible for 35.2% of Gerdau's crude steel output in Brazil.

Gerdau Laisa

In 1980, the Company acquired the Laisa mini-mill, in Uruguay. Gerdau Laisa is the main long steel producer in Uruguay and has an annual installed capacity of 100,000 tonnes of crude steel and 80,000 tonnes of rolled products.

Gerdau AZA and Aceros Cox

In 1992, the Company acquired the AZA mini-mill in Chile with Gerdau AZA's second mill beginning operations in January 1999. The two units, Renca and Colina, have a combined annual production capacity of 460,000 tonnes of crude steel and 450,000 tonnes of rolled steel. The difference in the output of crude steel and long rolled products is due to the fact that at the Renca industrial unit Gerdau AZA still operates old profile rolling mill equipment, which was not decommissioned following the start-up of the new plant in 1999. Although no official statistics are available in Chile, Gerdau AZA believes its share of the domestic long steel rebar market to be about 31.0%. Gerdau AZA also sells its products through Aceros Cox.

Sipar

Gerdau entered the Argentine market in December 1997. Following the financial and corporate restructuring of its operations in Argentina due to the prevailing economic environment, the Company currently holds a 92.8% stake in Sipar, a rolling mill with an annual installed capacity of 260,000 tonnes.

Diaco and Sidelpa

On September 30, 2005, the Company concluded the acquisition of a 57.1% voting and total interest in Diaco, thus obtaining a controlling interest. Diaco is the largest producer of steel and rebar in Colombia.

On November 19, 2005, the Company met all the conditions precedent related to the acquisition of a 97.4% controlling interest in Sidelpa. Sidelpa is the only producer of specialty long steel in Cali, Colombia. In January 2008, the Company acquired an additional 40.3% stake in Diaco S.A., increasing its stake to 97.4%.

Diaco and Sidelpa have a combined annual installed capacity of 515,000 tonnes of crude steel and 650,000 tonnes of rolled products.

Siderperú

Siderperú is a long and flat steel producer with annual installed capacity of 540,000 tonnes of crude steel acquired in 2006. Siderperú operates one blast furnace, a direct reduction unit and a melt shop with two electric arc furnaces (EAF), two LD converters and six rolling mills. Approximately 12.0% of sales are of flat steel and the remaining 88.0% in long steel.

Gerdau Ameristeel

In September 1999, Gerdau acquired 75.0% of Ameristeel from Kyoei Steel Ltd. of Japan. At that time, Ameristeel operated four mills on the East Coast: one unit in Florida, two in Tennessee, and one in North Carolina. In 2000, Gerdau acquired an additional 12.0% stake from Kyoei, increasing its overall stake in Ameristeel to 87.0%. In December 2001, Ameristeel acquired a steel mill located in Cartersville, Georgia.

In October 2002, Gerdau merged its North American assets with Co-Steel to create Gerdau Ameristeel. As a result of this merger, Gerdau's interest in Gerdau Ameristeel was reduced to 67.0%.

Currently, Gerdau Ameristeel has a nominal annual capacity of 10.0 million tonnes of crude steel and 10.4 million tonnes of rolled products. Gerdau S.A. holds a controlling interest of 66.5% in Gerdau Ameristeel. The Company is the second largest producer of long steel in North America and is listed on the Toronto Stock Exchange and the New York Stock Exchange, under the ticker symbols GNA.TO and GNA, respectively.

Grupo Feld

In March 2007, the Company acquired all capital stock of the holding company Grupo Feld S.A. de C.V., located in Mexico City, Mexico. Grupo Feld owns 100.0% of Siderúrgica Tultitlán, a long steel producing mini mill located in the metropolitan area of Mexico City with an installed capacity of 350,000 tonnes of crude steel and 330,000 tonnes of rolled products.

Multisteel Business Holdings

In May 2007, the Company signed a strategic alliance with the shareholders of Multisteel Business Holdings Corp., a holding company headquartered in Santo Domingo, Dominican Republic. The Company has a 49.0% stake in the capital stock of the holding company Multisteel Business Holdings Corp. which holds 98.6% of the capital stock of Industrias Nacionales (INCA), a long steel rolling mill company with annual shipments of almost 400,000 tonnes of steel products.

Siderúrgica Zuliana

In June 2007, Gerdau acquired SIZUCA – Siderúrgica Zuliana, located in Ciudad Ojeda, Venezuela, a mini mill which produces bars that reinforce concrete products. Sizuca has an annual installed capacity of 300,000 tonnes of crude steel and 200,000 tonnes of rolled products.

Other Businesses

Dona Francisca Energética S.A.

Dona Francisca Energética S.A. (DFESA) is an operating hydroelectric power plant with a nominal capacity of 125 MW, located in Agudo, in the state of Rio Grande do Sul.

DFESA's corporate purpose is to operate, maintain and maximize the use of the Dona Francisca Hydroelectric Plant's energy potential.

Dona Francisca participates in a consortium (Consórcio Dona Francisca) with the state power utility Companhia Estadual de Energia Elétrica (CEEE), belonging to the State of Rio Grande do Sul, in accordance with contract CEEE/9700295 of March 13, 1997 and its amendments. After Gerdau S.A.'s acquisition of an additional stake in 2003, Dona Francisca Energética S.A.'s shareholders are now Gerdau S.A. (51.8%), COPEL Participações S.A (23.0%), Celesc (23.0%), and Desenvix (2.2%).

Margusa

Margusa – Maranhão Gusa S.A. has an annual installed capacity of 210,000 tonnes of pig iron. The mill is located 50 km from São Luis and 48 km from a maritime port. The acquisition is part of the Company's strategy to ensure the supply of pig iron to its mills in the northeast of Brazil and for exporting any excess output to the North American units. This investment has guaranteed Gerdau's presence in the important iron ore production center of Carajás, a strategic pig iron source with excellent logistics for supplying both domestic and export markets. On December 28, 2007, Gerdau S.A. and Grupo Gerdau Empreendimentos Ltda. exchanged the totality of their Margusa shares for the totality of shares of Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda (Aplema).

Seiva

Seiva S.A. – Florestas e Indústrias is a reforestation company created in 1971. Seiva has pinus and eucalyptus forests, used for the cellulose industries.

Competition

Overview

The steel market is divided into manufacturers of flat steel products, long steel products and specialty steel. The main areas in which the Company operates are: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery and agricultural implements, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural facilities and reforestation projects. In North America, the Company also supplies customers with special sections, including elevator guide rails and super light beams. The Company also provides its customers with higher value-added products at 57 rebar fabricating facilities (12 service centers in Brazil branded Armafer, 12 units in Latin America and 33 fabrication shops in North America) and flat steel service centers (four in Brazil).

World common long rolled steel demand is met principally by steel mini-mills and, to a significantly lesser extent, by integrated steel producers. Shipping, freight and demurrage costs are a major barrier to imports, and since the Company operates in Brazil primarily in the common long rolled product business where profit margins are relatively small, the incentive for foreign competitors to enter the Brazilian market is low. In the Brazilian market, no single company competes against the Company across its entire product range. The Company believes that its business diversification and decentralization provides a competitive edge over its major competitors where operations are more centralized.

Competitive Position – Brazil

The Brazilian steel market is very competitive. For the year ended December 31, 2007, the Company was the largest Brazilian long steel producer with a 51.8% market share according to the IBS. ArcelorMittal Belgo was the second largest producer in Brazil for the year ended December 31, 2007 with roughly 35.8% of the market.

The following table sets forth the Company's main competitors and market share in the Brazilian long steel market:

Long Steel Sector Market Share Brazil	Year ended December 31, 2007*	Year ended December 31, 2006
Gerdau	51.8%	46.9%
ArcelorMittal Belgo	35.8%	36.7%
V&M do Brasil	6.1%	6.2%
Barra Mansa	5.5%	5.6%
Other	0.8%	4.6%
Total	**100.0%**	**100.0%**

*Includes Acos Villares
Source: IBS

In the domestic market, Gerdau Açominas is almost an exclusive supplier to well-defined and loyal customers, that have been purchasing from it regularly for over ten years. There is intense competition between the Company and CST (Companhia Siderúrgica de Tubarão), a subsidiary of Arcelor Mittal, in the slab market. In the international market, Gerdau Açominas, in its export markets, faces strong competition in the commercial quality products line from Eastern Europe (CIS) and China. The main competitors in the high quality products segment are Europeans and to a lesser extent the Japanese. The Company is a strong player due to its great experience, the high quality of its services and products and its low production costs. Gerdau Açominas has a diversified list of traditional customers all over the world.

The following table sets forth the Company's main competitors and market share in the Brazilian crude steel market:

Brazilian Crude Steel Producers	Year ended December 31, 2007	Year ended December 31, 2006
TOTAL	100.0%	100.0%
ArcelorMittal Brasil (CST + Belgo + Acesita)(1)	30.3%	30.8%
Usiminas + Cosipa(2)	25.7%	28.4%
Gerdau	21.6%	22.6%
CSN	15.7%	11.3%
Other	6.7%	6.9%

Source: IBS
(1) Arcelor S.A. controls CST, Belgo and Acesita.
(2) Usiminas and Cosipa are part of the Usiminas group.

Principal Markets in which the Company Competes

The three main markets in which the Company operates are: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery and agricultural implements, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural facilities and reforestation projects. In North America, Gerdau Ameristeel Manitoba also supplies customers with special sections, including elevator guide rails and super light beams. The Company provides its customers with higher added value products at 56 fabricated reinforcing steel facilities – fabrication shops (12 Armafer service centers in Brazil, 11 in Latin America and 33 fabrication shops in North America) plus seven fab shops joint ventures (six in United States and one in Chile) and four flat steel service centers in Brazil.

Competitive Position – Global

Outside Brazil, and notably in North America, the Company's subsidiary Gerdau Ameristeel has increased its market share through acquisitions. The Company has progressively increased its share in the North American market and is currently the second largest North American long steel producer with annual nominal capacities of 10.0 million tonnes of crude steel and 10.4 million tonnes of rolled products, according to the Company's statistics.

Gerdau Ameristeel's geographic market encompasses the eastern two thirds of Canada and the U.S., predominantly the eastern seaboard, the Southeast and the Midwest U.S. Gerdau Ameristeel experiences substantial competition in the sale of each of its products from numerous competitors in its markets. Rebar, merchant bars, and structural shapes are commodity steel products for which pricing is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is limited. Proximity of product inventories to customers, together with competitive freight costs and low-cost manufacturing processes, are key to maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350 mile radius of the mills and merchant bar deliveries are generally concentrated within 500 miles. Some products, such as special sections produced by the Manitoba mill, are shipped greater distances, including overseas. Except in unusual circumstances, the customer's delivery expense is limited to freight charges from the nearest competitive mill, and the supplier absorbs any incremental freight charges.

Principal competitors to Gerdau Ameristeel include Commercial Metals Corporation, Nucor Corporation, Steel Dynamics Inc., Mittal Inc., Bayou Steel Corporation and Ivaco, Inc. Gallatin Steel, which produces flat rolled sheet, competes with numerous other integrated and flat rolled mini-mill steel producers.

Despite the commodity characteristics of the rebar, merchant bar and structural markets, Gerdau Ameristeel believes it distinguishes itself from competitors due to its large scale production, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. Gerdau Ameristeel believes it produces one of the largest ranges of bar products and shapes. Its product diversity is an important competitive advantage in a market where many customers seek to fulfill their requirements from a few key suppliers.

In Chile, the main barriers faced by Gerdau AZA sales are freight and transportation costs and the availability of imports. The Company estimates that Gerdau AZA share of the domestic long steel rebar market to be about 31.0%.

In Uruguay, Gerdau Laisa's main competitors are two local rolling mills in addition to imports from Brazil, Argentina and Eastern Europe. The Company estimates that Gerdau Laisa has an 80.0% share of the steel long products market in Uruguay.

The Company estimates that Sipar has 19.0% of the Argentinean market and has more than 1,000 clients. The Argentinean company sells its products directly to the end-users (construction companies and industries) or through distributors.

The Company estimates that Diaco and Sidelpa have a 39.0% stake in the Colombian steel market. The companies sell their products through more than 225 distributors and have more than 2,700 clients (end-users) that are combined into the following markets: civil construction, industry and others.

Technology

Due to the specialized nature of its business, Gerdau Aços Especiais Brazil, the Company's specialty steel unit, is constantly investing in technological upgrading and in research and development. This unit is active in the automotive segment and maintains a research and development department responsible for new products and the optimization of existing processes. Product development projects are headed by specialists who use quality tools such as "Six Sigma", a set of statistical procedures for improving the assessment of process variables, and "Quality Function Deployment", a methodology through which the technicians are able to identify the full spread of customer requirements. In the other plants, production and quality teams are responsible for developing new products to meet customer and market needs.

As is common with mini-mill steel makers, the Company usually acquires technology in the market rather than developing new technology through intensive research and development, since steel-making technology is readily available for purchase.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment the Company uses. Such suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business.

Insurance

The Company maintains insurance coverage in amounts that it believes adequately covers the principal risks of its operating activities. The Company has contracted insurance for its Ouro Branco mill against operational losses, which covers amounts of up to approximately US$4.5 billion, including material damage to installations (US$3.2 billion as of April 30, 2008) and losses of gross revenues (US$1.3 billion as of April 30, 2008), such as halts in production arising from business interruptions caused by accidents for a period up to twelve months after the operations are interrupted. The Company's current insurance policy relating to the Ouro Branco mill remains effective until April 30, 2009. The Company's mini-mills are covered against named risks under various policies.

Employees and Labor Relations

General

The following table presents information on the geographical distribution of Gerdau's employees as of December 31, 2007:

Direct	Brazil	Overseas	Total
2001	8,631	3,565	12,196
2002	12,978	5,048	18,026
2003	14,263	5,334	19,597
2004	16,067	7,110	23,177
2005	16,446	8,808	25,254
2006	17,028	14,537	31,565
2007	19,012	17,913	36,925

Outsourced*	Brazil	Overseas	Total
2006	11,352	1,976	13,328
2007	11,797	1,890	13,687

* "Outsourced" corresponds to employees of the Company's third-party service providers which provide, as employees of those providers, services directly to the Company in areas that are not the Company's core business.

As of December 31, 2007, the Company employed 36,925 at its industrial units excluding the four joint ventures, Bradley Steel, Gallatin Steel, Monteferro and Pacific Coast Steel. Of this total, 51.5% are based in Brazil and the remainder at units in Latin America, North America and Europe, which had 6,235, 8,664 and 3,014 employees, respectively. Employee numbers in Brazil grew considerably in 2002 due to the full consolidation of Açominas. In North America, the number of employees increased in 2002 as a result of the incorporation of employees from Co-Steel into Gerdau Ameristeel Corp. and in 2004 due to the consolidation of North Star Steel into Gerdau Ameristeel. In 2005 and 2006, the number of employees increased as a result of the incorporation of the employees of new acquisitions in Colombia, Spain and Peru. In 2007 the number of employees further increased due to the acquisition of Sizuca in Venezuela, Sidertul in Mexico and Chaparral in the U.S.

As labor unions in Brazil are organized on a regional rather than a national basis, the Company has no nationwide agreements with its employees. Gerdau believes that its employee pay and benefits structure is comparable to general market conditions. The Company also provides its employees with fringe benefits such as health and child care.

In North America Gerdau seeks to maintain good working conditions at its plants and consequently has what it believes to be a comparatively low employee turnover rate. Given its strong emphasis on employee training, the Company seeks to manage necessary production curtailments through the rescheduling of vacation periods rather than workforce reductions.

Gerdau Ameristeel Corp. has been and continues to be proactive in establishing and maintaining a climate of good employee relations. Ongoing initiatives include organizational development skills training, team-building programs, opportunities for participation in employee involvement teams, and an "open book" system of management. Gerdau Ameristeel Corp. believes that a high level of employee involvement is a key factor in the success of its operations. Compensation programs are designed to bring the financial interests of employees into line with those of Gerdau Ameristeel's shareholders.

Gerdau Ameristeel currently employs approximately 10,140 employees (excluding employees of the 50% owned joint ventures), of which approximately 6,450 employees work in minimills, 3,285 work in downstream and recycling operations and 405 work in corporate and sales offices. Approximately 34% of the Company's employees (excluding employees of the three 50% owned joint ventures) are represented by unions under a number of different collective bargaining agreements. The agreements have different expiration dates. In 2007, the Company reached new collective bargaining agreements with employees at the Beaumont, Texas, St. Paul, Minnesota, Wilton, Iowa, Whitby, Ontario, Selkirk, Manitoba, Joliet, Illinois, Sand Springs, Oklahoma and Calvert City, Kentucky facilities.

The Company may in the future be unable to successfully negotiate new collective bargaining agreements without any labor disruption. A labor disruption could, depending on the operations affected and the length of the disruption, have a material adverse effect on the Company's operations. Labor organizing activities could occur at one or more of the Company's other facilities or at other companies upon which the Company is dependent for raw materials, transportation or other services. Such activities could result in a significant loss of production and revenue and have a material adverse effect on the Company's financial results and results of operations.

Pension Plans

The Company and other related companies in the Conglomerate co-sponsor pension plans (the "Brazilian Plans") covering substantially all employees based in Brazil. The Brazilian Plans consist of a plan for the employees of the former Açominas and its subsidiaries ("Gerdau Açominas Plan") and another plan for the employees of its other operations in Brazil ("Gerdau Plan"). The Brazilian Plans are mainly defined benefit plans with certain limited defined contributions. Additionally, Gerdau Ameristeel and its subsidiaries sponsor defined benefit plans (the "North American Plans") covering the majority of their employees. Contributions to the Brazilian Plans and the North American Plans are based on actuarially determined amounts.

Contributions to the Brazilian Plans for defined contribution participants are based on a specified percentage of employees' compensation and totaled US$903 thousand in 2007 and US$1.7 million in 2006. Contributions to and expenses for defined contribution retirement plans of employees of the subsidiaries in the U.S. and Canada amounted to US$12.2 million and $6.6 million in 2007 and 2006, respectively.

Government Regulation and Other Legal Matters

Environmental Regulation

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. The Company's manufacturing facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of the Company's environmental programs, and use outside experts where needed. The Company works to insure that it operates in accordance with applicable environmental licenses and to maintain compliance in all material respects with applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants it conducts an evaluation of possible environmental issues and prepares a work plan in accordance with the local authorities.

The steel production process generates air and water emissions, as well as solid wastes, which may pose environmental hazards. The principal potential hazardous waste generated by current and past operations is electric arc furnace dust, a residue from the production of steel in electric arc furnaces. The Company installs baghouse filter systems in all facilities where the Company produces steel, which ensure high levels of efficiency on dust filtration and retention. The costs of collection and disposal of electric arc furnace dust are expensed as operating costs when incurred. Environmental legislation and regulation at both the federal and state level over electric arc furnace dust in any jurisdiction could be subject to changes, which may increase the cost of compliance. The Company believes that electric arc furnace dust generated in its current production processes is being collected, handled and disposed of in a manner that in all material respects meets all current federal, state and provincial environmental regulations.

In most countries both the federal and state governments have power to enact environmental protection laws and issue regulations under such laws. In addition to those rules, municipal environmental laws and regulations may also be applicable. Under such laws, individuals or legal entities whose conduct or activities cause harm to the environment are usually subject to criminal and administrative sanctions, as well as any costs to repair the actual damage resulting from such harm. Individuals or legal entities that commit a crime against the environment usually are subject to penalties and sanctions that for individuals range from fines to imprisonment, and, for legal entities include suspension or interruption of activities and prohibition on entering into any contracts with governmental bodies. The governmental environmental protection agencies usually may also impose administrative sanctions on those who do not comply with the environmental laws and regulations, including, among others:

- fines;
- partial or total suspension of activities;
- obligations to refund recovery works and environmental projects;
- forfeiture or restriction of tax incentives and benefits;
- closing of establishments or undertakings; and
- forfeiture or suspension of participation in credit lines with official credit entities.

During 2007, Gerdau Açominas and Gerdau Aços Longos, Brazilian subsidiaries of the Company evaluated seven of their operating sites for potential environmental impact caused by past operations. The Company has concluded that past operations have caused environmental damage, mainly due to use and disposal of hazardous substances, and may be required by legal authorities to remedy those environmental damages in the future. Based on assumptions of the extent of the potential damage and the related remediation process, the Company has made estimates to determine the amounts involved on data collection, investigation and determination of the actual environmental impact by past operations. Such estimates amount to US$16.5 million in 2007 (US$13.7 million in 2006), and were recorded under "Other non-current liabilities". Those amounts may vary in the future, depending on the development of research and completion of the damage impact studies.

Trade Investigations and Government Protectionism

Over the past several years, exports of steel products from various companies and countries, including Brazil, have been subject to antidumping, countervailing duties and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies' ability to access such importing markets. To date, however, such investigations have not had a significant impact on the Company's export volume.

Mine Exploitation Permission

The Company's mining operations are subject to government concessions, and its mining activities are subject to the limitations imposed by the Brazilian Federal Constitution, the Brazilian Mining Code and the laws, rules and regulations promulgated pursuant thereto. Under the concession agreements, the Company was granted permission to exploit the mines located at Miguel Bournier, Várzea do Lopes, Dom Bosco and Gongo Soco, in the state of Minas Gerais, for as long as there are reserves therein. The Brazilian Mining Code and the Brazilian federal constitution impose on companies which conduct mining activities, such as us, requirements relating to, among other things, the manner in which mineral deposits are exploited, the health and safety of workers, the protection and restoration of the environment, the prevention of pollution and the promotion of health and safety of local communities where the mines are located.

Legal Proceedings

General

Like other Brazilian companies, Gerdau and its subsidiaries are party to proceedings with respect to tax, labor and civil matters, most of them arising in the regular course of business. Based on advice from legal counsel, management believes that the reserve for contingencies is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant adverse effect on its consolidated financial position as of December 31, 2007.

The most significant legal and administrative disputes (involving amounts exceeding US$8 million) are detailed below. The amount disclosed for each dispute is as of December 31, 2007 unless otherwise stated for further information on the reserve for contingencies, see the notes to the Financial Statements.

The following table summarizes the balances of provisions recorded for contingencies and related judicial deposits as of December 31, 2007 and 2006 (in thousands of US$):

	Contingencies		Judicial Deposits	
Claims	**2007**	**2006**	**2007**	**2006**
Tax	205,297	134,038	106,288	59,642
Labor	52,955	43,866	13,500	12,330
Other	7,074	11,821	6,523	8,131
	265,326	189,725	126,311	80,103

Tax Contingencies

Part of the contingencies correspond to tax matters. The most significant provision of contingencies are related to:

● US$50.3 million recorded by subsidiary Gerdau Açominas S.A. related to demands initiated by the Federal Revenue Secretariat regarding Import tax, Tax on Industrialized Products ("IPI – *Imposto sobre Produtos Industrializados*") and corresponding legal increases, due to transactions carried out under a drawback concession granted and afterwards annulled by DECEX (Foreign Operations Department). The Company did not agree with the administrative decision that annulled the concession and continues to insist on regularity of the realized transaction. The claim is currently *sub judice* in Supreme Federal Court.

● US$50.5 million related to State Value Added Tax ("*Imposto Sobre Circulação de Mercadorias e Serviços*" - ICMS), the majority of which is related to credit rights involving the Finance Secretariat and the State Courts of the states of Minas Gerais, Pernambuco, Mato Grosso, Maranhão e Paraná.

● US$26.3 million in contributions due to the social security authorities which correspond to suits for annulment by Gerdau progress in the Federal Court of First Instance in the state of Rio de Janeiro. The provision also refers to lawsuits questioning the position of the National Institute of Social Security ("*Instituto Nacional da Seguridade Social*" - INSS) in terms of charging INSS contributions on profit sharing payments made by the subsidiary Gerdau Açominas, discussions related to contribution of Work Accident Insurance (Seguro Acidente de Trabalho – SAT), and several INSS assessments due to services contracted with third parties, in which the INSS accrued debts related to the last ten years and assessed Gerdau Açominas as jointly responsible. The assessments were reaffirmed by the INSS when challenged by the Company and are currently being challenged by Gerdau

Açominas in annulment proceedings with judicial deposits of the amount in discussion, since the Company understands that the right to set up part of the credits has expired, and that, in any event, the Company is not responsible.

● US$19.2 million related to the Emergency Capacity Charge ("*Encargo de Capacidade Emergencial*" – ECE), as well as US$12.2 million related to the Extraordinary Tariff Recomposition ("*Recomposição Tarifária Extraordinária* – RTE), which are charges included in the electric energy bills. The Company views these charges as of a tax nature and, as such, are incompatible with the National Tax System provided in the Federal Constitution. For this reason, the constitutionality of this charge is being challenged in court. The lawsuits are *sub judice* in the First Instance of the Federal Justice in the states of São Paulo, and Rio Grande do Sul, as well as in the Federal Regional Courts. The Company has made a full judicial deposit for the amount of the disputed charges.

● The Company is also defending other taxes in the amount of US$46.8 million, for which a provision has been made following advice from the Company's legal counsel.

There are other contingent tax liabilities, for which the probability of losses are possible or remote and, therefore, are not recognized in the provision for contingencies. These claims include:

● The Company is a defendant in debt foreclosures filed by the state of Minas Gerais to demand ICMS credits arising mainly from the sales of products to commercial exporters. The total amount of the actions is US$27.7 million. Gerdau did not set up a provision for contingencies, since products for export are exempted from ICMS and no tax is payable.

● The Company and its subsidiary Gerdau Açominas are defendants in tax foreclosures filed by the state of Minas Gerais and Pernambuco, which are claiming ICMS credits on the export of semi-finished manufactured products. The total amount involved is US$26.7 million. Gerdau made no allowance for these lawsuits since the products do not fit in the definition of semi-finished manufactured products defined by federal complementary law and, therefore, are not subject to ICMS. In 2007, the subsidiary, Gerdau Açominas, obtained a final favorable decision in the judicial lawsuit.

● The Company entered into Fiscal Recovering Program ("*Programa de Recuperação Fiscal*" – REFIS) on December 6, 2000, which allowed the Company to pay PIS and Cofins debts in 60 monthly installments. The final installment was paid on May 31, 2005. There is a remaining balance being challenged amounting to US$11.6 million, once certain outstanding issues identified in the administrative proceeding that the Company moves before the Management Committee of REFIS, the management believes the refinancing program will be finally extinguished.

● The Company and its subsidiaries, Gerdau Açominas S.A., Gerdau Aços Longos .S.A and Gerdau Comercial de Aços S.A., are part in other ICMS discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is US$43.3 million. No provision for contingency was established for these claims, as the probability of loss is considered possible.

● The Company and its subsidiary, Gerdau Aços Longos S.A., are part in discussions related to municipal property tax (Imposto Predial e Territorial Urbano – IPTU), Import tax (Imposto de Importação – II) and Tax on Industrialized Products (Imposto sobre Produtos Industrializados - IPI). The total amount involved is US$28.9 million. No provision for contingency was established for these claims, as the probability of loss is considered possible.

Management believes the realization of certain contingent assets is possible. However, no amount has been recognized for these contingent tax assets, which would only be recognized upon final realization of the gain:

● Among them is a court-ordered debt security issued in 1999 in the Company´s favor by the state of Rio de Janeiro in the amount of US$15 million arising from an ordinary lawsuit regarding non-compliance with the Loan Agreement for Periodic Execution in Cash under the Special Industrial Development Program - PRODI. Due to the default by the state of Rio de Janeiro and the non-regulation of the Constitutional Amendment 30/00, which granted the government a ten-year moratorium for the payment of securities issued to cover court-ordered debt not related to alimentary rights, the Company understands realization of this credit in 2007 or in the following years is only possible.

● The Company and its subsidiary Gerdau Açominas. are claming recovery of IPI ("IPI – *Imposto sobre Produtos Industrializados*") premium credits. Gerdau S.A. filed administrative appeals, which are sub judice. With regard to the subsidiary Gerdau Açominas S.A., the claims were filed directly to the courts and a decision unfavorable to Gerdau Açominas was issued and has been appealed by Gerdau Açominas. The Company estimates a credit in the amount of US$133.3 million. The credit is not recognized due to the uncertainty of the realization.

Labor contingencies

The Company is also defending labor proceedings, for which there is a provision as of December 31, 2007 of US$53.0 million. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, health and risk premiums, among others. The balance in judicial deposits relate to labor contingencies as at December 31, 2007, totaling US$13.5 million.

Other contingencies

The Company is also defending civil proceedings, other contingencies arising from the normal course of its operations, which provisions for these claims amount to US$7.1 million. Escrow deposits related to these contingencies, at December 31, 2007, amount to US$6.5 million. Other contingent liabilities with remote or possible chances of loss, involving uncertainties as to their occurrence, and therefore, not included in the provision for contingencies, are comprised of:

Antitrust Proceedings

Antitrust process involving Gerdau S.A. related to the representation of two civil construction syndicates in the state of São Paulo that alleged that Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law – ("*Secretaria de Direito Econômico*"- SDE) and based on public hearings, the SDE is of the opinion that a cartel existed. This conclusion was also supported by an earlier opinion of the Secretariat for Economic Monitoring ("*Secretaria de Acompanhamento Econômico*" – SEAE). The process was sent to the Administrative Council for Economic Defense – ("*Conselho Administrativo de Defesa Econômica*" – CADE), for judgment.

CADE judgment was put on hold by an injunction obtained by Gerdau S.A., which aimed to annul the administrative process, due to formal irregularities. This injunction was cancelled by appeals made by CADE and the Federal Government, and CADE proceeded with the judgment. On September 23, 2005, CADE issued a rule condemning the Company and the other long steel producers, determining a fine of 7% of gross revenues less excise taxes of each company, based on the year before the commencement of the process, due to cartel practices. The Company has appealed this decision, and the appeal is pending of judgment.

The Company has proposed a judicial proceeding aiming to cancel the administrative process due to the above mentioned formal irregularities. If the Company is successful in this proceeding, the CADE decision can be annulled in the future.

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August, 30, 2006 to suspend the effect of the CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 (US$138.4 million). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after it was contested by CADE.

Prior to the CADE decision, the Federal Public Ministry of Minas Gerais ("*Ministério Público Federal de Minas Gerais*") had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the

Company of involvement in activities that breach antitrust laws. The Company presented its defense on July 22, 2005.

Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available that the administrative process until now includes many irregularities, some of which are impossible to resolve. The Company believes it has not committed any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

Insurance Dispute

The Company is subject to the following insurance-related claims and disputes:

A civil lawsuit was filed by Sul América Companhia Nacional de Seguros, an insurance company, against Gerdau Açominas and the New York branch of Westdeutsche Landesbank Girozentrale (WestLB), a bank, for the payment of US$19.4 million. These funds were deposited with the court to settle an insurance claim lodged by Gerdau Açominas.

Sul América has claimed uncertainty as to whom payment should be made and alleges that the Company is resisting in receiving and settling it. The lawsuit was contested by WestLB (which claimed to have no right over the amount deposited), as well as by the Company (which claimed there is no uncertainty as to entitlement to the payment and a justified basis to refuse payment, since the amount owed by Sul América as insurance settlement is higher than the amount Sul América proposed to pay). Following this plea, Sul América claimed fault in the bank's representation. This portion of the dispute has been settled, with Gerdau Açominas collecting the amount deposited in December 2004. The process is expected to enter the expert evidence phase, mainly to determine the amount finally due under the insurance policy.

This lawsuit relates to an accident on March 23, 2002 with the blast furnace regenerators at the Presidente Arthur Bernardes mill, which caused the shutdown of various activities, material damages to the mill's equipment and loss of profits. The equipment, as well as loss of profits arising from the accident, was covered by an insurance policy. The report on the accident, as well as the loss claim, was filed with IRB - Brasil Resseguros S.A., and the Company received an advance payment of US$35.0 million in 2002.

In 2002, a preliminary and conservative estimate of indemnities relating to the coverage of both property and casualty losses and loss of profits in the total amount of approximately US$62.1 million was recorded, based on the amount of the fixed costs incurred during the period of partial shutdown of the steel mill and on the expenditures incurred in temporarily repairing the equipment. This estimate is close to the amount of the advance received, plus the amount proposed by the insurance company as a complement for settling the indemnity. Subsequently, new amounts were added to the discussion as demonstrated in the Company's appeal, although they were not accounted for. Once a final legal ruling is handed down, the amounts will be duly booked to the Company's accounts.

Based on the opinion of legal counsel, the Company believes that losses from other contingencies are remote and that any eventual losses would not have a material adverse effect on the consolidated results of operations or on the consolidated financial position of the Company.

Based on the opinion of its legal advisors, management considers that losses from other contingencies that may affect with material adverse effects the results of operations or the Company's consolidated financial position are remote.

No Material Effect

Management believes that the probability of losses as a consequence of other contingencies is remote, and that were they to arise, they would not have a materially adverse effect on the consolidated financial position of the Company, its consolidated results of operations or its future cash flows.

MANAGEMENT

Board of Directors

General

The Company's by-laws provide for a board of directors (*Conselho de Administração*) of at least three and up to ten members and up to ten alternate members. Three independent directors (*conselheiros independentes*) also participate in the Company's decision-making process. During periods of absence or temporary unavailability of a regular member of the Company's board of directors, the corresponding alternate member substitutes for the absent or unavailable regular member. The Company's board of directors is a decision-making body responsible for, among other things, determining policies and guidelines for the Company's business and its wholly-owned subsidiaries. The Company's board of directors also supervises its board of executive officers and monitors its implementation of the policies and guidelines that are established from time to time by the board of directors. Under Brazilian corporation law, the Company's board of directors is also responsible for hiring an external independent registered public accounting firm.

The members of the Company's board of directors are elected at general meetings of shareholders for one-year terms and may be reelected. The terms of all current members expire at the Company's annual shareholders meeting in 2008. Members of the Company's board of directors are subject to removal at any time with or without cause at a general meeting of shareholders. Although the Company's by-laws do not contain any citizenship or residency requirements for members of its board of directors, the members of the Company's board of directors must be shareholders of the Company. The Company's board of directors is presided over by the president of the board of directors, and, in his absence, the vice president of the board of directors. The president and the vice president of the Company's board of directors are elected at a general meeting of shareholders from among the members of the Company's board of directors, serve for one-year terms and are eligible for reelection.

The Company's board of directors ordinarily meets twice a year and extraordinarily when a meeting is called by the president of the board of directors or by a majority of its members. Meetings of the Company's board of directors require a quorum of a majority of the directors and decisions are approved by majority vote of the directors present at such meeting.

The following table sets forth information with respect to the current members of the Company's board of directors and their alternates:

Name	Year of Initial Appointment	Position Held	Age
Jorge Gerdau Johannpeter………………..	1973	Chairman of the Board of Directors	71
Germano Hugo Gerdau Johannpeter…….	1973	Vice Chairman of the Board of Directors	75
Klaus Gerdau Johannpeter………………..	1973	Vice Chairman of the Board of Directors	72
Frederico Carlos Gerdau Johannpeter…….	1973	Vice Chairman of the Board of Directors	65
André Pinheiro de Lara Resende…………	2002	Independent Member of the Board of Directors	57
Affonso Celso Pastore……………………	2002	Independent Member of the Board of Directors	68
Oscar de Paula Bernardes Neto…………	2002	Independent Member of the Board of Directors	61
André Gerdau Johannpeter……………….	2008	Member of the Board of Directors	45

Expedito Luz is the Secretary-General of the Company's board of directors.

The following is a summary of the business experience, areas of expertise and principal outside business interests of the Company's current directors. Except as otherwise set forth below, the business address of each of the Company's directors is Av. Farrapos 1811, Porto Alegre, Rio Grande do Sul – Brazil CEP 90220-005.

JORGE GERDAU JOHANNPETER (71) has worked for the Gerdau Group since 1954. He and his brothers, Germano, Klaus and Frederico, started their careers as apprentices. Jorge Johannpeter became an Executive Officer in 1971 and a member of the Board of Directors in 1973. In 1983, he became Chairman of the Board of Directors and President of the Company. In 2002, after the implementation of the new corporate governance structure, he also became the President of the Gerdau Executive Committee (CEO). He holds a degree in Law from the Federal University of Rio Grande do Sul. Since January 2, 2007 he has been served exclusively as a member of the Board of Directors, as its President.

GERMANO HUGO GERDAU JOHANNPETER (75) has worked for the Gerdau Group since 1951. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Business Administration from the Getúlio Vargas Foundation.

KLAUS GERDAU JOHANNPETER (72) has worked for the Gerdau Group since 1954. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. In 2002, under the new corporate governance structure, he became a Vice Chairman of the Board of Directors. He holds a degree in Civil, Electrical and Mechanical Engineering from the Federal University of Rio Grande do Sul.

FREDERICO CARLOS GERDAU JOHANNPETER (65) has worked for the Gerdau Group since 1961. He became an Executive Officer in 1971 and has been a member of the Board of Directors since 1973. Under the new Corporate Governance structure, he also became Senior Vice President of the Gerdau Executive Committee. He holds a degree in Business Administration from the Federal University of Rio Grande do Sul and a master's degree in Business, Finance, Costs and Investments from the University of Cologne, Germany. Since January 2, 2007, he has served exclusively as the Vice-Chairman of the Board of Directors.

ANDRÉ PINHEIRO DE LARA RESENDE (57) was elected as an Independent Board Member in 2002. He graduated in Economics from the Pontifical Catholic University in Rio de Janeiro (PUC), and holds a master's degree from the Postgraduate School of Economics of the Getúlio Vargas Foundation and a PhD from the Massachusetts Institute of Technology in Cambridge, Massachusetts, USA. André Pinheiro de Lara Resende is also a member of the Board of Alps Funds. He was formerly President of the Brazilian National Bank for Economic and Social Development (BNDES), Special Advisor to the President of Brazil, Managing Partner of Banco Matrix S.A., Brazil's chief foreign debt negotiator, Executive President of Companhia Siderúrgica Tubarão (CST), Executive Vice President and member of the Board of Unibanco – União de Bancos Brasileiros S.A., Director of Brasil Warrant Administração de Bens e Empresas Ltda., a member of the Board of Directors of Cia. Ferro Brasileiro S.A., a member of the Board of Directors of Lojas Americanas S.A., Managing Partner of Banco de Investimento Garantia and Manager of Public Debt and Open Market of the Brazilian Central Bank.

AFFONSO CELSO PASTORE (68) was elected as an Independent Board Member in 2002. He holds a degree in Economics from the University of São Paulo and a PhD in Economics from the same university. Affonso Celso Pastore is also Professor at the Getulio Vargas Foundation in Rio de Janeiro and an independent economics advisor. He was the Secretary of the São Paulo Treasury Department and President of the Brazilian Central Bank.

OSCAR DE PAULA BERNARDES NETO (61) was elected as an Independent Board Member in 2002. He holds a degree in Chemical Engineering from the Federal University of Rio de Janeiro and a degree in Business Administration from the State University of Rio de Janeiro. Oscar de Paula Bernardes Neto is the owner and director of LID – Latin America Internet Development Group and member of the consultative boards of Telesystem International Wireless (TIW) and Bunge Alimentos S.A.. in Brazil. He is also a member of the boards of RBS (media network), CheckForte, Satipel and Alcoa in Brazil, and Delphi Corp. in the U.S.

ANDRÉ GERDAU JOHANNPETER (45) has worked for the Gerdau Group since 1980. He was appointed Executive Vice President of the Gerdau executive committee, and was responsible for its North American operations, in the position of Chief Operating Officer ("COO"). He holds a degree in Business Administration from the Pontifical Catholic University of Rio Grande do Sul. In April 2006 André Johannpeter returned to Brazil heading the Corporate Processes of Sales, Marketing, Raw Material, Procurement, Logistics and Huamn Resources & Organizational Development of the Company. Since January 2007, Andre has been the Chief Executive Officer of Gerdau and in January 2008 he was designated as member of the Board of Directors replacing Carlos João Petry, who retired in January 2008.

Family Relationships

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. André Gerdau Johannpeter is Jorge Gerdau Johannpeter's son, and Claudio Gerdau Johannpeter is Klaus Gerdau Johannpeter's son.

Arrangements

The Company has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election or appointment of its managers. There are no pending legal proceedings in which any current or former member of the Company's board of directors or any of the Company's executive officers is a party to against the Company. Apart from statutory severance benefits, none of the Board Members or Executive Officers is entitled to any contractual benefits upon termination of employment, except Mr. Mario Longhi. Mr. Longhi is entitled to receive a pro-rata payment of any bonus earned for the year in which the contract is terminated by the Company, plus the long term incentive and supplemental pension benefits. In the event Mr. Longhi is terminated with cause or he resigns or otherwise voluntarily terminates the employment relationship, he will be entitled to a pro-rata payment of any bonus.

Executive Officers

General

The Company's executive officers (*diretores*) are its legal representatives and are responsible for its internal organization and day-to-day operations and the implementation of the general policies and guidelines established from time to time by the Company's board of directors.

According to the Company's by-laws, the Company's board of executive officers (*diretoria*) shall consist of (i) a chief executive officer, (ii) at least two and up to 10 executive vice-presidents and (iii) one to 25 executive officers without specific designation.

The Company's executive officers are elected by its board of directors for one-year terms, corresponding to the terms of the members of the Company's board of directors, and may be reelected. The terms of all current members expire on April 30, 2008. The Company's board of directors may dismiss any executive officer at any time without cause.

As a result of the restructuring of the Company's operations in Brazil in November 2003, most of the executive officers of Gerdau S.A. were transferred to Gerdau Açominas. On July 29, 2005, as a result of the 2005 Reorganization, a number of officers were transferred from Gerdau Açominas to the other new operating entities based on each of such officer's technical skills.

In November 2006, the Gerdau Group announced a new phase in its corporate governance, marked by the fourth succession in five generations. Jorge Gerdau Johannpeter, Frederico Gerdau Johannpeter and Carlos Petry now serve exclusively as members of the Board of Directors, formerly having also held the positions of executive president and senior executive vice presidents, respectively. This process began in 2000 and has already resulted in important structural changes in the organization, with emphasis on the creation of the Executive Committee in 2002.

In January 2007, a new generation of the Gerdau family assumed management of the Company. It was a structured process, which involved external consulting companies and internal teams, and resulted in reliability and consistency with respect to the business and markets. At that time, Jorge Gerdau Johannpeter, Frederico Gerdau Johannpeter and Carlos J. Petry, who held the positions of Chief Executive Officer and Senior Vice Presidents and members of the Board of Directors, started to act exclusively as directors. André Gerdau Johannpeter was elected Chief Executive Officer and Claudio Gerdau Johannpeter was elected Chief Operating Officer.

The election of André Gerdau Johannpeter on January 2, 2007, to the position of chief executive officer (CEO), and of Claudio Johannpeter to that of chief operating officer (COO) consolidated the process, which was supported by internal actions and specialized international consultants. Additional members of the Executive Committee are Mario Longhi Filho (vice president, North America Business Operation), Osvaldo Burgos Schirmer (vice president, Finance and Investor Relations), Paulo Fernando Bins de Vasconcellos (vice president, Specialty Steel Business Operation), Marcio Pinto Ramos (vice president, Latin American operations), Expedito Luz (vice president, general counsel and corporate secretary). Alfredo Huallem (vice president), Manoel Vitor de Mendonça Filho (vice president), Geraldo Toffanello (executive officer) and Nestor Mundstock (executive officer).

The new structure was defined by the scale, complexity and challenges facing the Gerdau Group in its global market operations. The best practices of the world's large companies were also taken into account.

The structure is composed of three levels and has maintained the existing governing bodies – the board of directors, the Executive Committee and Business Operations Committee.

The following table lists the current members of the Company's board of executive officers:

Name	Year of Initial Appointment	Position Held	Age
André Gerdau Johannpeter	2002	President of the Executive Committee (Chief Executive Officer - CEO)	45
Claudio Gerdau Johannpeter...........	1997	Executive Vice President of the Executive Committee (Chief Operating Officer – COO)	44
Osvaldo Burgos Schirmer...............	1987	Executive Vice President of the Executive Committee	57
Mário Longhi Filho.........................	2005	Executive Vice President of the Executive Committee	53
Expedito Luz...................................	2002	Executive Officer and Secretary-General of the Executive Committee	56
Paulo Fernando Bins de Vasconcellos	2002	Executive Vice President of the Executive Committee	63
Nestor Mundstock...........................	2006	Executive Officer	56
Márcio Pinto Ramos	2005	Executive Vice President of the Executive Committee	47
Alfredo Huallem	2007	Executive Vice President of the Executive Committee	61
Manoel Vitor de Mendonça Filho...	2007	Executive Vice President of the Executive Committee	51
Geraldo Toffanello..........................	2007	Executive Officer	57

Summarized below is information regarding the business experience, areas of expertise and principal outside business interests of the current members of the Company's board of executive officers.

ANDRÉ GERDAU JOHANNPETER (45) has worked for the Gerdau Group since 1980. He was appointed Executive Vice President of the Gerdau executive committee, and was responsible for its North American operations, in the position of Chief Operating Officer ("COO"). He holds a degree in Business Administration from the Pontifical Catholic University of Rio Grande do Sul. In April 2006 André Johannpeter returned to Brazil heading the Corporate Processes of Sales, Marketing, Raw Material, Procurement, Logistics and Huamn Resources & Organizational Development of the Company. Since January 2007, Andre has been the Chief Executive Officer of Gerdau and in January 2008 he was designated as member of the Board of Directors replacing Carlos João Petry, who retired in January 2008.

CLAUDIO GERDAU JOHANNPETER (44) joined the Company in 1982. He became an executive officer in 1997, and is currently an Executive Vice President of the Gerdau Executive Committee, responsible for the Ouro Branco mill and specialty steel, as well as for industrial processes in Brazil and abroad. He was awarded a degree in Metallurgical Engineering from the Federal University of Rio Grande do Sul in 1990. Since January 2007, Claudio has been the COO of Gerdau.

OSVALDO BURGOS SCHIRMER (57) joined the Company in 1986 and was appointed Financial Executive Officer in 1987. He has also been responsible for Gerdau Bank (Banco Gerdau) since 1994 and was recently promoted to the position of Executive Vice President of the Gerdau Executive Committee, while retaining the positions of Chief Financial Officer (CFO) and Investor Relations Executive Officer of Gerdau S.A. Osvaldo Burgos Schirmer graduated in Business Administration from the Federal University of Rio Grande do Sul in 1973, and holds an MBA from Illinois University. He previously held a position as an executive officer at the Iochpe-Maxion Group, a holding company for companies in the auto parts and railroad equipment sectors.

MARIO LONGHI FILHO (53) joined the Company in 2005 as Executive Vice President, member of the Gerdau Executive Committee. Mário graduated in Metallurgical Engineering from Instituto Mauá de Tecnologia, São Paulo. Before joining Gerdau Group, Mário had a successful career at Alcoa, where he became Vice President, heading global operations and member of the Executive Committee.

EXPEDITO LUZ (56) has worked for Gerdau since 1976 and in 1989 became an Executive Officer of the Legal Department. He was appointed to the Board of Directors in 2001 and under the new corporate governance structure, he is now Secretary-General of the Board of Directors and the Gerdau Executive Committee. Expedito Luz graduated in Law from the Federal University of Rio Grande do Sul in 1975 and obtained a master's degree in Law from the Columbia Law School in New York in 1980.

PAULO FERNANDO BINS DE VASCONCELLOS (63) joined the Company in 1972. In 2002, he was appointed Executive Vice President of the Gerdau Executive Committee. He is now responsible for the Specialty Steel Operations in Brazil and Europe. He holds a degree in Metallurgical Engineering.

NESTOR MUNDSTOCK (56) has worked for the Gerdau Group since 1975 and was promoted to Executive Officer in 2001. Nestor Mundstock graduated in Metallurgical Engineering from the Federal University of Rio Grande do Sul, in 1975, and received post graduation degrees in Labor Safety Engineering (1979) and Business Management (2000).

MÁRCIO PINTO RAMOS (47) was elected Executive Officer of Gerdau at the Board of Directors meeting held on April 5, 2005 and is responsible for the Latin American operations of Gerdau. He graduated in Mechanical Engineering from the Federal University of Rio Grande do Sul and holds an MBA from Purdue University, USA. He has also held a position as an executive officer at Effem do Brasil (Mars Inc.) and Telet Claro Digital. Effective from April 28, 2007 Marcio Ramos became Executive Vice President and member of the Gerdau Executive Committee**.**

ALFREDO HUALLEM (61) has worked in the Gerdau Group since 1975. He was promoted to Executive in 1993 and joined the Executive Committee, as Executive Vice President, in December 2007. He is responsible for the Business Operations of Long Steel in Brazil. He is a metallurgical engineer, having graduated from the UFF-Universidade Federal Fluminense, having also studied Economic Engineering at PUC-RJ and Strategic Marketing at Stanford.

MANOEL VITOR DE MENDONÇA FILHO (51) has worked for the Gerdau Group since 1983 and was promoted to Executive Officer in 2001. Manoel Vitor graduated in Metallurgical Engineering from Federal University of Minas Gerais in 1982, and holds an MBA from the Getúlio Vargas Foundation.

GERALDO TOFFANELLO (57) has worked for the Gerdau Group since 1970 and was promoted to Executive Officer in 1988, the same position he holds today. Geraldo Toffanello graduated in Accounting from the FAPCCA – Faculdade Porto Alegrense de Ciências Contábeis e Administração, in 1971.

Executive Committee

The Company's executive committee is its executive management body. The Company's by-laws require that its executive committee consist of a chief executive officer and the executive vice-presidents who are specifically designated for this purpose by the board of directors. The executive committee meets as needed and extraordinarily, whenever necessary or convenient, when convened by the chief executive officer or by two members of the executive committee.

The Company's executive committee represents the link between the board of directors and the operations of the Gerdau group. Its activities are divided into five business operations (BOs), defined by product line and/or geographical location: BO – Brazil Long Steel Products, BO – Specialty Steel Products, BO – Gerdau Açominas (Ouro Branco mill), BO – North America and BO – Latin American Operations. The Company's executive committee is also responsible for the main functional processes that operate vertically throughout the Gerdau group, such as finance, accounting, human resources and planning. Members of the Company's executive committee work together to encourage a greater synergy among operations, and individually, with a focus on the management of each business and functional process in order to maximize results.

The Company's executive committee runs its operations through several operational and support processes. Operational processes are those directly connected with the final results of the business, such as marketing and sales, industrial processes, purchasing, scrap purchasing, logistics and transportation. Support processes are those which provide backup in running the Company's business as a whole and include: strategic planning – corporate and operations, corporate communications and community relations, human resources and organizational development, legal, finance and investor relations, holdings, accounting and auditing, management technology and information technology.

The following are the current members of the Company's executive committee:

President
André Gerdau Johannpeter
Chief Operating Officer
Claudio Johannpeter
Vice Presidents
Osvaldo Burgos Schirmer (Chief Financial Officer)
Mário Longhi Filho (North America Business Operation)
Paulo Fernando Bins de Vasconcellos (Specialty Steel Business Operation)
Márcio Pinto Ramos (Latin American Business Operation)
Alfredo Huallem (Long Steel Brazil Business Operation)
Manoel Vitor de Mendonça Filho (Gerdau Açominas Business Operation)
Secretary-General
Expedito Luz (Vice President, General Counsel)

Excellence Committee

The excellence committee has been installed to provide support to the executive committee and consists of executives who contribute to the achievement of growing levels of operating performance. The committee analyzes the Group's current situation and growth opportunities, and defines its long-term business focus. The excellence committee provides support for functional processes, aiming at developing best management practices and encouraging the exchange of know-how among the Group's units.

Board of Auditors *(Conselho Fiscal)*

Under Brazilian Corporate Law, the board of auditors ("Conselho Fiscal") is a shareholder nominated audit board and a corporate body independent of the board of directors, the management and the company's external auditors. The board of auditors has not typically been equivalent to or comparable with a U.S. audit committee; its primary responsibility has been to monitor management's activities, review the financial statements, and report its findings to the shareholders. Pursuant to an exemption under Section 10A-3 of the SEC rules concerning the audit committees of listed companies, a foreign private issuer (such as the Company) need not have a separate audit committee composed of independent members if it has a Board of Auditors established and selected pursuant to its home country´s legal or listing provisions expressly requiring or permitting such a board and if such a board meets certain requirements. Pursuant to this exemption, a board of auditors can exercise the required duties and responsibilities of a U.S. audit committee to the extent permissible under Brazilian Corporate Law. To comply with the SEC rules, the Board of Auditors must meet the following standards: it must be separate from the full board of directors, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In order to qualify for exemption, the Board of Auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);

- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- have the authority to engage independent counsel and other advisors as deemed necessary, to carry out its duties; and

- receive appropriate funding from the company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, the Company decided to modify its Board of Auditors to comply with the exemption requirements. Accordingly, the Ordinary General Meeting of Shareholders held on April 28, 2005, amended the Company's by-laws to modify the duties of the Board of Auditors and the Board of Directors, and, on the same date approving the delegation of certain additional responsibilities to the Board of Auditors. The Board of Auditors operates pursuant to a charter ("regimento interno") that contemplates the activities described above to the extent permitted by Brazilian Law and is compliant with the requirements of the Sarbanes-Oxley Act, the pertinent regulations, and the requirements of the New York Stock Exchange and the "Conselho Fiscal".

Because Brazilian Corporate Law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide the board or the board of auditors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the board of auditors cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the board of auditors may only make recommendations to the board of directors with respect to the appointment, retention and compensation of the external auditors. Likewise, the board of auditors may only make recommendations to management and the board with regard to the resolution of disagreements between management and the external auditors. This limited scope of authority is a key difference between the board of auditors and the customary authority of an audit committee as a full committee of the board of directors.

Under Brazilian Corporate Law, members of the board of auditors of a company are not allowed to be members of the board of directors, hold executive office, or be employed in any other position within that of the company or its subsidiaries or controlled companies. In addition a member of the board of auditors cannot be spouse or relative of any member of the company's management. In addition, the Brazilian Corporate Law requires that members of the board of auditors receive a remuneration at least 10.0% of the average amount paid to each executive officer. The Brazilian Corporate Law requires that a board of auditors be composed of a minimum of three and a maximum of five members and their respective alternates.

As part of the adaptation of its Board of Auditors to the regulations, the Company has installed a permanent (standing) Board of Auditors composed of three members and their alternates who are elected at the Ordinary General Meeting of Shareholders with term of office to run until the next Ordinary General Meeting of Shareholders following their election, reelection being permitted. Under Brazilian Corporate Law, holders of Preferred Shares have the right to elect through a separate vote, one member of the board of auditors to represent their interests.

Likewise, minority groups of shareholders that collectively hold at least 10.0% of the voting shares also have the right to elect one member of the board of auditors through a separate vote. However, irrespective of circumstances, the common shareholders have the right to elect the majority of the members of the board of auditors.

Set forth below are the names, ages and positions of the members of the Company's Board of Auditors and their respective alternates, as of March 12, 2008.

Name	Age	Position	Year First Elected
Egon Handel	68	Effective member	2005
Carlos Roberto Schroder	68	Effective member	2005
Roberto Lamb [(1)]	59	Effective member	2007
Eduardo Grande Bittencourt	69	Alternate	2005
Domingos Matias Urroz Lopes	70	Alternate	2005
Selson Kussler [(1)]	62	Alternate	2007

[(1)] Elected by preferred shareholders in 2007, replacing Pedro Carlos de Mello and Lucineide Siqueira do Nascimento, effective member and alternate, respectively.

The Board has determined that Egon Handel is an "audit committee financial expert" within the meaning of the rules adopted by the SEC concerning disclosure of financial experts. Each member of of the Board of Auditors has acquired significant financial experience and exposure to accounting and financial issues. Mr. Handel is the founder and partner of Handel, Bittencourt & Cia. - Independent Accounting and Auditing Firm since 1979. He was also Manager and responsible for the opening and the operation of the branch in Porto Alegre of Treuhand Auditores Associados Ltda., associated of Touche Ross & Co., and Robert Dreyfuss & Cia. (currently KPMG), from 1970 to 1972. Mr. Handel had faculty experience as Accounting and Auditing Professor at the Universidade Federal do Rio Grande do Sul (UFRGS), in the Under Graduate and Graduate Courses, from 1966 to 1992. Presently, Mr. Handel holds the position of Member of the Fiscal Board, of Gerdau S.A.(acting as Audit Committee) and Marcopolo S.A. Mr. Handel also holds the position of Member of the Board of Directors of Lojas Renner S.A. (since 1991). Mr. Handel holds a B.S. in Accounting from UFRGS (1965) and a Master's Degree in Business Administration, major in Accounting, from Michigan State University (1969). Mr. Lamb holds a MsC Finance, and currently serves as on audit committee for several public companies in Brazil. Mr. Lamb is also a professor of Finance at the Universidade Federal do Rio Grande do Sul (UFRGS) since 1998. He is also a member and professor at the Brazilian Institute of Corporate Governance-IBGC, with several publications in the areas of investment, risk and corporate governance. Mr. Schroeder holds a bachelor degree in Accounting and worked as Financial Director and Manufacturing Director for large companies in Brazil.

In 2007, Directors and Executive officers from Gerdau were paid a total of US$33.4 million in salaries and variable compensation. The variable Compensation for executives is based on the overall performance of Gerdau, on the basis of actual EBITDA (as defined for the purposes of calculating variable remuneration) versus planned EBITDA (as defined for the purposes of calculating the variable remuneration), on the performance of the unit to which the executive is related, and on personal performance.

OWNERSHIP AND CAPITAL STRUCTURE

As of April 30, 2008, Gerdau had 248,293,247 common shares and 463,299,802 non-voting preferred shares outstanding (excluding treasury stock). The Company's common and preferred shares are traded on the São Paulo Stock Exchange, or "BOVESPA", and the Company is listed as a Level 1 company on the BOVESPA. The Company's American depositary shares are traded on the New York Stock Exchange and its shares are traded, in Euros, on the Latibex, part of the Madrid Stock Exchange dedicated to Latin American companies. Shares of Gerdau Ameristeel are traded on the Toronto Stock Exchange and the New York Stock Exchange. Of the two classes of shares traded in the market, only the common shares carry voting rights. Under the terms of the Company's bylaws, however, specific rights are assured to the non-voting preferred shares.

Pursuant to the Company's by-laws, its board of directors may increase its capital stock to up to 400,000,000 common shares and 800,000,000 preferred shares, without amending the Company's by-laws. The Company's shareholders must approve any increase in capital stock exceeding its authorized capital stock at a shareholders' meeting.

Principal Shareholders

The table below presents certain information as of April 30, 2008, regarding (i) any person known to the Company to be the owner of more than 5.0% of the Company's outstanding common shares, (ii) any person known to the Company to be the owner of more than 5.0% of the Company's outstanding preferred shares and (iii) the total amount of the Company's common shares and preferred shares owned by the Board of Directors and executive officers of the Company consolidated as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	189,270,746	76.2	115,533,026	24.9
Sta. Felicidade Com. Imp. Exp. de Prod. Sid. Ltda.(1)	-	-	15,958,555	3.4
BNDES Participações S.A. – BNDESPAR	17,104,761	6.9	7,081,077	1.5
Members of the board of directors and executive officers as a group (18 members)	43,224	0.0	15,900,887	3.4

(1) Controlled by or affiliated with Metalúrgica Gerdau S.A.

Metalúrgica Gerdau S.A.

Metalúrgica Gerdau S.A. is a holding company that controls directly and indirectly all Gerdau companies in Brazil and abroad. Metalúrgica Gerdau and its subsidiaries hold 74.9% of the voting capital stock of Gerdau S.A. and thus have the ability to control the Company's Board of Directors as well as its management and operations. On December 9, 2004, Metalúrgica Gerdau S.A. and its subsidiary Santa Felicidade Com. Imp. Exp. Prod. Sid. Ltda., reduced their stakes in the voting capital stock of Gerdau S.A. by 3.4% and 6.1%, respectively, through an auction at the BOVESPA. Metalúrgica Gerdau S.A. is controlled by Indac - Ind. Adm. e Com. S.A., Grupo Gerdau Empreendimentos Ltda. and Gersul Empreend. Imobiliários Ltda. which are controlled indirectly by the Gerdau Johannpeter family.

RELATED-PARTY TRANSACTIONS

Transactions of the Company with related parties consist of (i) loans, (ii) commercial operations, (iii) administration of investment funds of the Company by a related party bank, (iv) payment of guarantees and royalties to some controlling companies and (v) operations with debentures issued by Gerdau and acquired by related parties.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates by means of loan contracts, which are repaid under conditions similar to those prevailing in the open market. Contracts between related parties and subsidiaries in Brazil incur interest at the average market rate. Contracts with the Group's foreign companies incur annual interest at LIBOR + 3.0% and are subject to indexation based on variations in the foreign exchange rate.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the same conditions and terms as those of transactions with non-related third parties. The commercial operations also include payments for the use of the Gerdau brand name and payments relating to loan guarantees.

(iii) The Company holds marketable securities in investment funds managed by a related party bank. Such marketable securities comprise time deposits and debentures issued by major Brazilian banks, and treasury bills issued by the Brazilian Government.

(iv) The Company pays a fee of 1.0% per year for debt guaranteed by a controlling related party company. During 2007, the average debt guaranteed by the related party amounted to US$965.3 million.

(v) The Company usually sells and purchases debentures issued by Gerdau S.A. to or from related parties. The Company has no obligation to repurchase any of such debentures, and purchases and sales have been made as a part of the overall management of liquidity of the Company.

DESCRIPTION OF THE BONDS

The Issuer will issue the bonds pursuant to an amended and restated indenture to be dated as of May 13, 2008, the date the Issuer expects to deliver the bonds, among the Issuer, the Guarantors, Citibank, N.A., as trustee (which term includes any successor as trustee under the amended and restated indenture) and principal paying agent, transfer agent and registrar (which term includes any successor as registrar under the Indenture) and Dexia Banque Internationale à Luxembourg, as Luxembourg Paying Agent and Transfer Agent. The Issuer will, under the amended and restated indenture, appoint a registrar, paying agents and transfer agents, which are identified on the inside back cover page of this offering memorandum. A copy of the amended and restated indenture, including the form of the bonds, will be available for inspection during normal business hours at the offices of the trustee and any of the other paying agents set forth on the inside back cover page of this offering memorandum. The trustee or any paying agent will also act as transfer agent and registrar in the event that the Issuer issues certificates for the bonds in definitive registered form as set forth in "Form of Bonds—Individual Definitive Bonds."

This description of bonds is a summary of the material provisions of the bonds and the amended and restated indenture. You should refer to the amended and restated indenture for a complete description of the terms and conditions of the bonds and the amended and restated indenture, including the obligations of the Issuer, Gerdau and the other Guarantors (collectively, the "Transaction Parties") and your rights.

You will find the definitions of capitalized terms used in this section under "—Certain Definitions." For purposes of this section of this offering memorandum, references to (i) the "Issuer" refer only to GTL Trade Finance Inc., a wholly-owned subsidiary of Gerdau S.A., and (ii) "Gerdau" shall mean Gerdau S.A. and not to its subsidiaries.

General

The bonds offered hereby constitute a further issuance of, and will be consolidated to form a single series with, the Issuer's US$1,000,000,000 outstanding 7.25% bonds due 2017 issued on October 22, 2007. The bonds sold pursuant to Rule 144A under the Securities Act will be fungible with the existing bonds held in the Restricted Global Bond from the closing date. After the 40th day following the date of delivery of the bonds, the bonds sold pursuant to Regulation S will be fungible with existing bonds currently held through the Regulation S Global Bond. During such 40-day period, bonds sold pursuant to Regulation S will have a temporary CUSIP number, ISIN and common code.

The bonds:

- will be issued in an aggregate amount of US$500,000,000, which will increase the aggregate amount of the outstanding 7.25% Bonds due 2017 to US$1,500,000,000;
- will be senior unsecured obligations of the Issuer;
- will be fully and unconditionally guaranteed by Gerdau and certain of its subsidiaries;
- will mature on October 20, 2017;
- will be issued in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof;
- will be represented by one or more registered bonds in global form and may be exchanged for bonds in definitive form only in limited circumstances; and
- will not be required to be registered under the Securities Act.

Interest on the bonds:

- will accrue at the rate of 7.25% per annum from April 20, 2008, the last interest payment date of the existing bonds, or from the most recent interest payment date;

- will be payable in U.S. dollars semi-annually in arrears on April 20 and October 20 of each year, commencing on April 20, 2008, until all required amounts due in respect of the bonds have been paid;

- will be payable to the holders of record on April 5 and October 5 immediately preceding the related interest payment dates; and

- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, and interest and any additional amounts on, the bonds will be payable, and the transfer of bonds will be registrable, at the office of the trustee, and at the offices of the paying agents or transfer agents, respectively. At maturity, the redemption price will be equal to 100.0% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto. If the bonds are listed on the Euro MTF Market of the Luxembourg Stock Exchange, the Issuer will maintain a listing agent, a paying agent and transfer agent in Luxembourg for so long as the bonds are so listed and the rules of that stock exchange so require.

The indenture limits and restricts the Issuer from taking certain actions or engaging in certain activities or transactions. See "—Covenants—Limitations on the Issuer." The indenture does not limit the amount of debt or other obligations that may be incurred by the Guarantors or any of Gerdau's non-guarantor subsidiaries (other than the Issuer). Other than the restrictions on liens described below under "—Covenants—Limitation on Liens," the indenture does not contain any restrictive covenants or other provisions designed to protect holders of the bonds in the event the Transaction Parties or any non-guarantor subsidiary of Gerdau participates in a highly leveraged transaction or upon a change of control, except as set forth under "—Covenants—Repurchase of Bonds upon a Change of Control."

The Issuer is entitled, without the consent of the holders, to issue additional bonds under the indenture on the same terms and conditions as the bonds being offered hereby in an unlimited aggregate principal amount (the "Additional Bonds"). The bonds and the Additional Bonds, if any, will be treated as a single class for all purposes of the indenture, including waivers and amendments. Unless the context otherwise requires, for all purposes of the indenture and this "Description of the Bonds," references to the bonds include any Additional Bonds actually issued.

Guarantees

Gerdau and each other Guarantor will jointly and severally guarantee, on a senior unsecured basis, the due and punctual payment of all amounts due and payable on the bonds (including the payment of additional amounts described under "—Additional Amounts") when and as the same shall become due and payable. No subsidiary of Gerdau, other than the named Guarantors, is or will be obligated to guarantee the bonds.

Ranking

Bonds

The bonds will constitute direct senior unsecured obligations of the Issuer. The obligations of the Issuer under the bonds will rank at least *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain statutory preferences under applicable law, including labor and tax claims.

The obligations of the Issuer under the bonds will also rank:

- senior in right of payment to any subordinated debt of the Issuer; and

- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of Gerdau's subsidiaries that are not Guarantors and to secured debt and other secured obligations of Gerdau to the extent of such security.

Guarantees

The obligations of each Guarantor will rank:

- *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain statutory preferences under applicable law, including labor and tax claims;

- senior in right of payment to any subordinated debt of that Guarantor; and

- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor's subsidiaries and to secured debt and other secured obligations of that Guarantor to the extent of such security.

Gerdau is a holding company. Substantially all of Gerdau's operations are conducted through its subsidiaries. Therefore, Gerdau's ability to service its debt, including the bonds (as Guarantor), is dependent upon the cash flows of Gerdau's operating subsidiaries. Certain laws restrict the ability of Gerdau's subsidiaries to pay dividends or make loans or advances. If these restrictions were applied to subsidiaries (other than those that are Guarantors) then Gerdau would not be able to use the earnings of those subsidiaries to make payments on the bonds.

None of Gerdau's subsidiaries (other than the named Guarantors) is guaranteeing the bonds. Claims of creditors of such non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of Gerdau's creditors, including holders of the bonds. Accordingly, the bonds will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Gerdau's non-guarantor subsidiaries. The indenture does not require any existing subsidiaries (other than the named Guarantors) or any future subsidiaries of Gerdau to guarantee the bonds, and it does not restrict any Guarantor from disposing of its assets to a third party (except as set forth under "—Covenants—Limitation on Consolidation, Merger or Transfer of Assets") or a subsidiary of Gerdau that is not guaranteeing the bonds.

As of December 31, 2007, the Company had approximately US$9,003.3 million of consolidated indebtedness. Approximately US$605.4 million of this total amount was structurally senior to the bonds being sold in this offering, including US$161.8 million of the Company's and the other Guarantors' secured debts and US$443.6 million of the Company and the other Guarantor's non-guarantor subsidiaries' debt.

Early Redemption

The bonds will not be redeemable prior to maturity, except in case of certain tax related events as described below and except as described under "—Covenants—Repurchase of Bonds upon a Change of Control."

The bonds will be redeemable at the option of the Issuer, in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at 100.0% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto, only if (i) the Issuer has or will become obligated to pay additional amounts as discussed below under "—Additional Amounts" with respect to such bonds in excess of the additional amounts that the Issuer would pay if payments in respect of the bonds were subject to deduction or withholding at a rate of 15.0% (determined without regard to any interest, fees, penalties or other additions to tax) as a result of any change in, or amendment to, the treaties, laws or regulations of the British Virgin Islands, Brazil or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of the indenture, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. For the avoidance of doubt, for purposes of the preceding sentence, reasonable measures shall include a change of the jurisdiction of incorporation, residence or domicile of the Issuer or any paying agent. No such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such additional amounts if a payment in respect of such bonds were then due.

Prior to the publication or mailing of any notice of redemption of the bonds as described above, the Issuer must deliver to the trustee an officers' certificate to the effect that the obligations of the Issuer to pay additional amounts cannot be avoided by the Issuer taking reasonable measures available to it. The Issuer will also deliver an opinion of an independent legal counsel of recognized standing stating that the Issuer either would be or should be obligated to pay additional amounts due to the changes in treaties, tax laws or regulations. The trustee will accept this certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (i) and (ii) of the preceding paragraph, in which event it will be conclusive and binding on the holders.

Open Market Purchases

The Issuer, the Guarantors or their respective affiliates may at any time purchase bonds in the open market or otherwise at any agreed upon price. Any such purchased bonds may be held in treasury or may be reissued or resold in accordance with applicable securities and other laws.

Payments

The Issuer will make all payments on the bonds exclusively in U.S. dollars.

The Issuer will make payments of principal and interest on the bonds to the principal paying agent (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the trustee and the other paying agents or to the holders. See "Taxation."

The Issuer will make payments of principal to the principal paying agent for distribution to the holders upon surrender of the relevant bonds at the specified office of the trustee or any of the paying agents. The Issuer will pay principal and interest on the bonds to the persons in whose name the bonds are registered at the close of business on the 15th day before the due date for payment. Payments of principal and interest in respect of each bond will be made by U.S. dollar check drawn on a bank in New York City and mailed to the holder of such bond at its registered address. Upon application by the holder to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a bond, such payment may be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Under the terms of the indenture, payment by the Issuer of any amount payable under the bonds on the due date thereof to the principal paying agent in accordance with the indenture will satisfy the obligation of the Issuer to make such payment; *provided, however*, that the liability of the principal paying agent shall not exceed any amounts paid to it by the Issuer, or held by it, on behalf of the holders under the indenture. The Issuer has agreed to indemnify the holders of the bonds in the event that there is a subsequent failure by the trustee or any paying agent to pay any amount due in respect of the bonds in accordance with the bonds and the indenture so that the holders will receive such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of "—Additional Amounts." No commissions or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the trustee and the paying agents will pay to the Issuer upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer for payment as general creditors. After the return of such monies by the trustee or the paying agents to the Issuer, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

The Issuer shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the bonds plus 1.0% per annum from and including the date when such amounts were due and through and including the date of payment by the Issuer.

Listing

The Issuer will use commercially reasonable efforts to cause the bonds to be listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market and to remain so listed so long as the Issuer and the Guarantors do not reasonably believe that doing so would impose burdensome financial reporting or other requirements, or costs relating thereto.

Form, Denomination and Title

The bonds will be in registered form without coupons attached in amounts of US$100,000 and integral multiples of US$1,000 in excess thereof.

Bonds sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream Luxembourg. Bonds sold in reliance on Rule 144A will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Bonds represented by the global bonds will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such bonds will therefore settle in immediately available funds. There can be no assurance as to the effect, if any, of settlements in immediately available funds on trading activity in the bonds. Beneficial interests in the global bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg. Except in certain limited circumstances, definitive registered bonds will not be issued in exchange for beneficial interests in the global bonds. See "Form of Bonds—Global Bonds."

Title to the bonds will pass by registration in the register. The holder of any bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive bond issued in respect of it) and no person will be liable for so treating the holder.

Transfer of Bonds

Certificated bonds may be transferred in whole or in part in an authorized denomination upon the surrender of the bond to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new bond to be issued upon exchange of bonds or transfer of such bonds will be mailed at the risk of the holder entitled to the bond to such address as may be specified in such request or form of transfer.

Bonds will be subject to certain restrictions on transfer as more fully set out in the indenture. See "Notice to Investors." Transfer of beneficial interests in the global bonds will be effected only through records maintained by DTC and its participants. See "Form of Bonds."

Transfer of bonds will be effected by or on behalf of the Issuer, the registrar or the transfer agents, without charge to the holder except for any tax or governmental charges or insurance charge which may be imposed in relation to such transfer or any expenses of delivery other than regular mail. The Issuer is not required to transfer or exchange any individual definitive bond selected for redemption.

No holder may require the transfer of a bond to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that bond.

Additional Amounts

All payments by the Issuer or a Guarantor in respect of the bonds will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of the British Virgin Islands, Brazil or any political subdivision or authority of or in the British Virgin

Islands or Brazil having power to tax, or any other jurisdiction in which the Issuer or a Guarantor is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (any of the aforementioned being a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In the event that any such taxes, duties, assessments, fees or other governmental charges (and any fines, penalties or interest related thereto) are so imposed or levied, the Issuer, or a Guarantor, as applicable, will pay to each holder such additional amounts as may be necessary in order that every net payment made by the Issuer or a Guarantor, as applicable, on each bond after such withholding or deduction imposed upon or as a result of such payment by a Taxing Jurisdiction will not be less than the amount then due and payable on such bond. The foregoing obligation to pay additional amounts, however, will not apply to or in respect of:

(1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder, on the one hand, and the relevant Taxing Jurisdiction, on the other hand (including, without limitation, such holder being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of or the enforcement of rights under such bond;

(2) any tax, duty, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(3) any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of the holder if (a) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which the Issuer or a Guarantor, as applicable, will apply this clause (3), either the Issuer or a Guarantor, as applicable, will have notified all holders of bonds that some or all holders of bonds will be required to comply with such requirement;

(4) any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;

(5) any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest on the bond; or

(6) any combination of the above.

The Issuer or a Guarantor, as applicable, will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration, enforcement or the making of payments in respect of the bonds, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the British Virgin Islands or Brazil, other than those resulting from, or required to be paid in connection with, the enforcement of the bonds following the occurrence of any default or Event of Default.

No additional amounts will be paid with respect to a payment on any bond to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the bond.

The Issuer or a Guarantor, as applicable, will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available without unreasonable burden or expense, a certified copy thereof or, if such certified copy is not available, other documentation satisfactory to the trustee) evidencing any payment of taxes, penalties, duties, assessments, fees or other governmental charges in respect of which the Issuer or such Guarantor has paid any additional amounts. Copies of such documentation will be made available to the holders of the bonds or the paying agents, as applicable, upon request therefor.

All references in this offering memorandum to principal of and interest on the bonds will include any additional amounts payable by the Issuer in respect of such principal and such interest. The obligations described under "—Additional Amounts" will survive until the bonds have been paid in full and will apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer or a Guarantor is organized or any political subdivision or taxing authority or agency thereof or therein.

The Issuer and the Guarantors undertake that, while European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meetings of November 26 and 27, 2000, December 13, 2001 and January 31, 2003 (or any law implementing or complying with, or introduced to conform to, any such Directive) is in effect, the Issuer and the Guarantors will ensure that it maintains a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Covenants

Limitations on the Issuer

The indenture limits and restricts the Issuer from taking the following actions or engaging in the following activities or transactions:

(1) incurring or permitting to exist any Debt for borrowed money unless such Debt is guaranteed by one or more of the Guarantors; and

(2) entering into any consolidation, merger, amalgamation, joint venture or other form of combination with any person, or selling, leasing, conveying or otherwise disposing of any of its assets or receivables, except as otherwise permitted under "—Limitation on Consolidation, Merger or Transfer of Assets" below.

Limitation on Liens

The Issuer will not create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on its Capital Stock. Under the indenture, the Guarantors will not, nor will Gerdau permit any Restricted Subsidiary, including any of the Guarantors, to, create or suffer to exist any Lien upon any of the property or assets now owned or hereafter acquired by them or on any of their Capital Stock securing any obligation, unless contemporaneously therewith effective provision is made to secure the bonds equally and ratably with such obligation for so long as such obligation is so secured. The preceding sentence will not require any of the Guarantors or any Restricted Subsidiary to equally and ratably secure the bonds if the Lien consists of the following:

(1) any Lien existing on the date of the indenture, and any extension, renewal or replacement thereof or of any Lien in clause (2), (3) or (4) below; *provided, however*, that the total amount of Debt so secured is not increased;

(2) any Lien on any property or assets (including Capital Stock of any person) securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the indenture; *provided* that (a) the aggregate principal amount of Debt secured by such Lien will not exceed (but may be less than) the cost (*i.e.*, purchase price) of the property or assets so acquired, constructed or improved and (b) such Lien is incurred before, or within 120 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of the Guarantors or any Restricted Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, such Lien also may encumber other property or assets of the person so acquired;

(3) any Lien securing Debt incurred for the purpose of financing all or part of the cost of the acquisition, construction or development of a project (including mini-mills or other facilities); *provided* that the lenders of such Debt expressly agree to limit their recourse in respect of such Debt to assets (including Capital Stock of the project entity) and/or revenues of such project with an aggregate value of not more than the amount of such Debt; and *provided*, *further*, that the Lien is incurred before, or within 120 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets of Gerdau or any Subsidiary;

(4) any Lien existing on any property or assets of any person before that person's acquisition by, merger into or consolidation with Gerdau or any Restricted Subsidiary after the date of the indenture; *provided* that (a) such Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (b) the Debt secured by such Lien may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (c) such Lien will not apply to any other property or assets of Gerdau or any of its Restricted Subsidiaries and (d) such Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;

(5) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;

(6) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which Gerdau or any Restricted Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which Gerdau or any Restricted Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(7) any Lien in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of Gerdau or any Restricted Subsidiary in the ordinary course of business;

(8) any Lien securing taxes, assessments and other governmental charges, the payment of which are not yet due or are being contested in good faith by appropriate proceedings and for which such reserves or other appropriate provisions, if any, have been established as required by GAAP;

(9) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of Gerdau or any Restricted Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(10) any rights of set-off of any person with respect to any deposit account of Gerdau or any Restricted Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(11) any Liens granted to secure borrowings from, directly or indirectly, (a) *Banco Nacional de Desenvolvimento Econômico e Social*–BNDES, or any other Brazilian governmental development bank or credit agency or (b) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;

(12) any Liens on the inventory or receivables of Gerdau or any Restricted Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in

connection with any structured export or import financing or other trade transaction; *provided* that the aggregate principal amount of Debt incurred that is secured by receivables that will fall due in any fiscal year shall not exceed (a) with respect to transactions secured by receivables from export sales, 80.0% of Gerdau's consolidated gross revenues from export sales for the immediately preceding fiscal year of Gerdau; or (b) with respect to transactions secured by receivables from domestic (Brazilian) sales, 80.0% of such person's consolidated gross revenues from sales within Brazil for the immediately preceding fiscal year of Gerdau; and *provided, further*, that Advance Transactions will not be deemed transactions secured by receivables for purpose of the above calculation; and

(13) in addition to the foregoing Liens set forth in clauses (1) through (12) above, Liens securing Debt of Gerdau or any Restricted Subsidiary (including, without limitation, guarantees of Gerdau or any Restricted Subsidiary) the aggregate principal amount of which, at any time of determination, does not exceed 15.0% of Consolidated Net Tangible Assets.

Limitation on Transactions with Affiliates

The Transaction Parties will not, nor will they permit any Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate, other than a Wholly-owned Subsidiary (an "Affiliate Transaction") unless the terms of the Affiliate Transaction are no less favorable to such Transaction Party or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a person who is not an Affiliate.

Limitation on Consolidation, Merger or Transfer of Assets

No Transaction Party will consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any person, unless:

(1) the resulting, surviving or transferee person or persons (if not a Transaction Party) will be a person or persons organized and existing under the laws of Brazil, the British Virgin Islands or the U.S., any State thereof or the District of Columbia, Canada or any other country that is a member country of the European Union or of the Organization for Economic Co-operation and Development on the date of the indenture, and such person or persons expressly assume, by a supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of such Transaction Party under the indenture;

(2) the resulting, surviving or transferee person or persons (if not a Transaction Party), if not organized and existing under the laws of Brazil or the British Virgin Islands undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the bonds or the guarantees, as applicable, after deduction or withholding for or on account of any present or future tax, penalty, duty, assessment, fee or other governmental charge (and any fines, penalties, interest or other liabilities related thereto) imposed by the U.S. or such other country, as the case may be, or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the bonds, subject to the same exceptions set forth under clauses (1), (2) and (3) under "—Additional Amounts" but adding references to the U.S. or such other country to the existing references in such clause to Brazil or the British Virgin Islands;

(3) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) the Transaction Parties will have delivered to the trustee an officers' certificate and an opinion of legal counsel of recognized standing, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture, if any, comply with the indenture and that all conditions precedent under the indenture to the consummation of such transaction have been satisfied.

The trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

Repurchase of Bonds upon a Change of Control

Not later than 30 days following a Change of Control that results in a Ratings Decline, Gerdau, acting on behalf of the Issuer, will make an Offer to Purchase all outstanding bonds at a purchase price equal to 101.0% of the principal amount plus accrued interest to the date of purchase.

An "Offer to Purchase" must be made by written offer, which will specify the principal amount of bonds subject to the offer and the purchase price. The offer must specify an expiration date (the "Expiration Date") not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase (the "Purchase Date") not more than five Business Days after the Expiration Date. The offer must include information concerning the business of Gerdau which it believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable holders to tender bonds pursuant to the offer. Gerdau will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A holder may tender all or any portion of its bonds pursuant to an Offer to Purchase, subject to the requirement that any portion of a bond tendered must be in a multiple of US$1,000 principal amount and that the minimum tender of any holder must be no less than US$100,000. Holders shall be entitled to withdraw bonds tendered up to the close of business on the Expiration Date. On the Purchase Date the purchase price will become due and payable on each bond accepted for purchase pursuant to the Offer to Purchase, and interest on bonds purchased will cease to accrue on and after the Purchase Date.

Gerdau agrees to obtain all necessary consents and approvals from all appropriate Brazilian and other governmental authorities or agencies having jurisdiction over Gerdau and the Offer to Purchase for the remittance of funds outside of Brazil prior to making any Offer to Purchase. Any failure to obtain such consents and approvals shall constitute an Event of Default hereunder.

Reporting Requirements

Gerdau, acting on behalf of the Transaction Parties, will provide or make available to the trustee the following reports (and will also provide the trustee with electronic versions or, in lieu thereof, sufficient copies of the following reports referred to in clauses (1) through (4) below for distribution, at Gerdau's expense, to all holders of bonds):

(1) an English language version of Gerdau's annual audited consolidated financial statements prepared in accordance with GAAP promptly upon such financial statements becoming available but not later than 180 days after the close of its fiscal year;

(2) an English language version of Gerdau's unaudited quarterly financial statements prepared in accordance with GAAP (including, as supplementary information, an unaudited condensed consolidated balance sheet and an unaudited condensed consolidated statement of operations, in each case, prepared in accordance with GAAP), promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of its fiscal year);

(3) simultaneously with the delivery of each set of financial statements referred to in clauses (1) and (2) above, an officers' certificate from Gerdau stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Issuer and/or any Guarantor is taking or proposes to take with respect thereto;

(4) without duplication, English language versions (or summaries) of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Issuer and/or the

Guarantors with (a) the CVM, (b) the Euro MTF Market of the Luxembourg Stock Exchange or any other stock exchange, if any, on which the bonds may be listed or (c) the SEC (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act, or otherwise); and

(5) upon any director or executive officer of any of the Transaction Parties becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either principal or interest on the bonds are prohibited, an officers' certificate setting forth the details thereof and the action which Gerdau is taking or proposes to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee's access to, or receipt of, such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including compliance by the Transaction Parties with any of their covenants in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

None of the Transaction Parties other than Gerdau will be required to provide or distribute any financial or other reports described above.

Events of Default

An "Event of Default" occurs if:

(1) there is a failure to pay interest (including any related additional amounts) on any bond when the same becomes due and payable, and such default continues for a period of 30 days;

(2) there is a failure to pay principal (including any related additional amounts) of any bond when the same becomes due and payable upon redemption or as described under "—Covenants—Repurchase upon a Change of Control" or otherwise;

(3) any of the Transaction Parties fails to comply with any of the covenants described under "—Covenants—Limitations on the Issuer," "—Covenants—Limitation on Liens," "—Covenants—Limitation on Transactions with Affiliates" or "—Covenants—Limitation on Consolidation, Merger or Transfer of Assets," and such failure continues for 30 days after the notice specified below;

(4) any of the Transaction Parties fails to comply with any of its covenants or agreements in the bonds or the indenture (other than those referred to in (1), (2) and (3) above), and such failure continues for 60 days after the notice specified below;

(5) any of the Transaction Parties or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for borrowed money by such Transaction Parties or any such Significant Subsidiary (or the payment of which is guaranteed by such Transaction Parties or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default (a "Payment Default") or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals US$35.0 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(6) one or more final judgments or decrees for the payment of money of US$35.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against any of the Transaction Parties or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment

or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(7) certain events of bankruptcy or insolvency of any of the Transaction Parties or any Significant Subsidiary occur; or

(8) any guarantee of the bonds ceases to be in full force and effect or any of the Guarantors denies or disaffirms its obligations under its guarantee of the bonds.

A Default under clause (3) or (4) above will not constitute an Event of Default until the trustee or the holders of at least 25.0% in principal amount of the bonds outstanding notify the Transaction Parties of the Default and the Transaction Parties do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default unless either (i) any officer of the trustee or the principal paying agent with direct responsibility for the administration of the indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the trustee by any of the Transaction Parties or any holder.

If an Event of Default (other than an Event of Default specified in clause (7) above) occurs and is continuing, the trustee or the holders of not less than 25.0% in principal amount of the bonds then outstanding may declare all unpaid principal of and accrued interest on all bonds to be due and payable immediately, by a notice in writing to the Transaction Parties (and to the trustee, if the notice is given by the holders), stating that such notice is an "acceleration notice"; and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (7) above occurs and is continuing, then the principal of and accrued interest on all bonds will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders have offered to the trustee indemnity reasonably satisfactory to the trustee. Subject to such provision for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the outstanding bonds will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

The Transaction Parties may at any time terminate all of their obligations with respect to the bonds ("defeasance"), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the bonds, to replace mutilated, destroyed, lost or stolen bonds and to maintain agencies in respect of bonds. The Transaction Parties may at any time terminate their obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the bonds issued under the indenture ("covenant defeasance"). In order to exercise either defeasance or covenant defeasance, the Transaction Parties, either acting through Gerdau or otherwise, must irrevocably deposit in trust, for the benefit of the holders of the bonds, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, and interest on the bonds to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax matters.

Amendment, Supplement, Waiver

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the bonds then outstanding, and any past Default or Event of

Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the bonds then outstanding. However, without the consent of each holder of an outstanding bond affected thereby, no amendment or waiver may:

- reduce the rate of or extend the time for payment of interest on any bond;
- reduce the principal of any bond;
- reduce the amount payable upon redemption of any bond or change the time at which any bond may be redeemed;
- change the currency for payment of principal of or interest on any bond;
- impair the right to institute a suit for the enforcement of any right to payment on or with respect to any bond;
- waive certain payment defaults with respect to the bonds;
- reduce the principal amount of bonds whose holders must consent to any amendment or waiver; or
- make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the bonds will receive prior notice as described under "—Notices" of any proposed amendment to the bonds or the indenture or any waiver described in this paragraph. After an amendment or waiver described in the preceding paragraph becomes effective, the Issuer is required to mail to the holders a notice briefly describing such amendment or waiver. However, the failure to give such notice to all holders of the bonds, or any defect therein, will not impair or affect the validity of the amendment or waiver.

The consent of the holders of the bonds is not necessary to approve the particular form of any proposed amendment or waiver. It is sufficient if such consent approves the substance of the proposed amendment or waiver.

The Transaction Parties and the trustee may, without notice to or the consent of any holder of the bonds, amend or supplement the indenture or the bonds for the following purposes:

- to cure any ambiguity, omission, defect or inconsistency provided that such amendment or supplement does not materially and adversely affect the rights of any holder;
- to comply with the covenant described under "—Limitation on Consolidation, Merger or Transfer of Assets";
- to add guarantees or collateral with respect to the bonds;
- to add to the covenants of any of the Transaction Parties for the benefit of holders of the bonds;
- to surrender any right conferred upon any of the Transaction Parties;
- to evidence and provide for the acceptance of an appointment by a successor trustee;
- to comply with any requirements of the SEC in connection with any qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended;
- to provide for the issuance of additional bonds; or
- to make any other change that does not materially and adversely affect the rights of any holder of the bonds.

Notices

Notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the bonds at their registered addresses as they appear in the trustee's records. For so long as the bonds are listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market and it is required by the rules of the Luxembourg Stock Exchange, all such notices to the holders of the bonds will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Trustee

Citibank, N.A. is the trustee under the indenture.

The amended and restated indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture.

Except during the continuance of an Event of Default, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee or the principal paying agent. In case an Event of Default has occurred and is continuing, and an officer of the trustee or the principal paying agent with direct responsibility for the indenture has actual knowledge of such occurrence, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee or the principal paying agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

The Transaction Parties and their respective Affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates. The address of the trustee is 388 Greenwich Street, 14th Floor, New York, NY 10013, U.S.A.

Governing Law and Submission to Jurisdiction

The bonds, the amended and restated indenture and the guarantees will be governed by the laws of the State of New York, without regard to conflicts of law principles thereof.

The Transaction Parties will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the bonds and the indenture. The Transaction Parties have appointed Law Debenture Corporate Services Inc. as their authorized agent upon which process may be served in any such action.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Transaction Parties under or in connection with the bonds, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of a judgment or the enforcement of a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of any of the Transaction Parties or otherwise) by any holder of a bond in respect of any sum expressed to be due to it from any of the Transaction Parties will only constitute a discharge of such sum to the extent of the amount of U.S. dollars that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any bond, the Transaction Parties will jointly and severally indemnify such holder against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a bond, be deemed to have agreed to repay such excess. In any event, the Transaction Parties will jointly and severally indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a bond to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Transaction Parties, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a bond and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any bond.

Certain Definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

"Advance Transaction" means an advance from a financial institution involving either (a) a foreign exchange contract (ACC — *Adiantamento sobre Contrato de Câmbio*) or (b) an export contract (ACE — *Adiantamento sobre Cambiais Entregues*).

"Affiliate" means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Brazil" means the Federative Republic of Brazil.

"Business Day" means any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in The City of New York, São Paulo, Brazil or the British Virgin Islands.

"Capital Lease Obligations" means, with respect to any person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with GAAP; the amount of such obligation will be the capitalized amount thereof, determined in accordance with GAAP; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting) such person's equity, including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

"Change of Control" means: (1) any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, other than any Permitted Holders) is or becomes the "beneficial owner" (as such term is used in Rules 13d-3 under the Exchange Act), directly or indirectly, of more than 50.0% of the total voting power of the outstanding voting stock of Gerdau, including as a result of any merger or consolidation transaction including Gerdau or any of the other Guarantors; or (2) Permitted Holders, directly or indirectly, cease to have the power to direct or cause the direction of the management and policies of Gerdau, whether through the ownership of voting securities, by contract or otherwise.

"Consolidated Net Tangible Assets" means the total amount of assets of Gerdau and its Subsidiaries less (a) applicable depreciation, amortization and other valuation reserves, (b) all current liabilities excluding intercompany Debt and (c) all goodwill, trade names, trademarks, patents, and other intangibles, each as set forth on the most recent financial statements delivered by Gerdau to the trustee in accordance with "—Covenants—Reporting Requirements".

"CVM" means the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*.

"Debt" means, with respect to any person, without duplication:

(a) the principal of and premium, if any, in respect of (i) indebtedness of such person for borrowed money and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such person is responsible or liable;

(b) all Capital Lease Obligations of such person;

(c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);

(d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such person of a demand for reimbursement following payment on the letter of credit);

(e) all Hedging Obligations of such person;

(f) all obligations of the type referred to in clauses (a) through (d) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);

(g) all obligations of the type referred to in clauses (a) through (e) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and

(h) any other obligations of such person which are required to be, or are in such person's financial statements, recorded or treated as debt under GAAP.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"GAAP" means generally accepted accounting principles in the U.S. as in effect from time to time, except that if Gerdau is not otherwise preparing financial statements in accordance with generally accepted accounting principals in the U.S. and Gerdau shall so notify the trustee in writing, then GAAP shall mean either (a) generally accepted accounting principals in Brazil as in effect from time to time ("Brazilian GAAP") or (b) International Financial Reporting Standards as in effect from time to time ("IFRS"); *provided* that in the event Gerdau makes such an election, it shall restate its financial statements in accordance with Brazilian GAAP or IFRS, as applicable, for the fiscal year ending immediately prior to the fiscal year for which financial statements have been prepared in accordance with Brazilian GAAP or IFRS, as applicable and provide or make available to the trustee such restated financial statements (and will also provide the trustee with electronic versions or, in lieu thereof, sufficient copies of such restated financial statements for distribution, at Gerdau's expense, to all holders of bonds).

"guarantee" means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such

Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term "guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"Guarantor" means each of Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A., until replaced by a successor thereof and, thereafter, includes the successor for purposes of any provision contained in the indenture.

"Hedging Obligations" means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

"holder" means the person in whose name a bond is registered in the register.

"Investment" means, with respect to any person, any loan or advance to, any acquisition of Capital Stock, equity interests, obligations or other securities of, any capital contribution to or any other investment in, such person.

"Issuer" means GTL Trade Finance Inc.

"Lien" means any mortgage, pledge, security interest, encumbrance, conditional sale or other title retention agreement or other similar lien.

"Permitted Holders" means any or all of the following: (a) Metalúrgica Gerdau S.A.; and (b) any Person both the capital stock and the voting stock of which (or in the case of a trust, the beneficial interests in which) are owned, directly or indirectly, more than 50.0% by Metalúrgica Gerdau S.A.

"person" means any individual, corporation, limited liability company, partnership, joint venture, trust, unincorporated organization or government or any agency, department or political subdivision thereof.

"Rating Agencies" means (i) Standard & Poors Corporation, a division of The McGraw-Hill Company or (ii) Moodys Investors Service, Inc.

"Ratings Decline" means that at any time within 90 days (which period shall be extended so long as the rating of the bonds is under publicly announced consideration for possible downgrade by either Rating Agency) after the date of public notice of a Change of Control, or of Gerdau's publicly declared intention or that of any person or entity to effect a Change of Control, the then-applicable rating of the bonds is decreased by either Rating Agency by one or more categories so long as any such Ratings Decline is expressly stated by the applicable Rating Agency to have been the result of the Change in Control.

"Restricted Subsidiary" means any Subsidiary of Gerdau, including the Issuer, other than Gerdau Ameristeel Corporation, any of its subsidiaries and any other person in which it has an equity interest.

"Significant Subsidiary" means any Subsidiary of Gerdau which at the time of determination either (i) had assets which, as of the date of Gerdau's most recent quarterly consolidated balance sheet, constituted at least 10.0% of Gerdau's total assets on a consolidated basis as of such date, or (ii) had revenues for the 12-month period ending on the date of Gerdau's most recent quarterly consolidated statement of income which constituted at least 10.0% of Gerdau's total revenues on a consolidated basis for such period.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency, unless such contingency has occurred). With respect to the bonds, the stated maturity shall be October 20, 2017.

"Subsidiary" means any corporation, association, partnership or other business entity of which more than 50.0% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) Gerdau, (b) Gerdau and one or more Subsidiaries (including the Issuer) or (c) one or more Subsidiaries.

"Wholly-owned Subsidiary" means a Subsidiary all of the Capital Stock of which (other than directors' qualifying shares) is owned by Gerdau or another Wholly-owned Subsidiary.

FORM OF BONDS

Bonds sold in offshore transactions in reliance on Regulation S will be represented by a permanent global bond or bonds in fully registered form without interest coupons (the "Regulation S Global Bond") and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. Bonds sold in reliance on Rule 144A will be represented by a permanent global bond or bonds in fully registered form without interest coupons (the "Restricted Global Bond" and, together with the Regulation S Global Bond, the "global bonds") and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The bonds offered hereby constitute a further issuance of, and will be consolidated to form a single series with, the Issuer's US$1,000,000 outstanding 7.25% bonds due 2017 issued on October 22, 2007. The bonds sold pursuant to Rule 144A under the Securities Act will be fungible with the existing bonds held in the Restricted Global Bond from the closing date. After the 40th day following the date of delivery of the bonds, the bonds sold pursuant to Regulation S will be fungible with existing bonds currently held through the Regulation S Global Bond. During such 40-day period, bonds sold pursuant to Regulation S will have temporary CUSIP numbers, ISIN and common codes.

The bonds will be subject to certain restrictions on transfer as described in "Notice to Investors." On or prior to the 40th day after the closing date of this offering, a beneficial interest in the Regulation S Global Bond may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Bond only upon receipt by the principal paying agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the U.S. or any other jurisdiction (a "Restricted Global Bond Certificate"). After such 40th day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Bond may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond, whether before, on or after such 40th day, only upon receipt by the trustee or transfer agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144A under the Securities Act (a "Regulation S Global Bond Certificate"). Any beneficial interest in one of the global bonds that is transferred to a person who takes delivery in the form of an interest in the other global bond will, upon transfer, cease to be an interest in such global bond and become an interest in the other global bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global bond for as long as it remains an interest.

Except in the limited circumstances described under "—Individual Definitive Bonds," owners of the beneficial interests in global bonds will not be entitled to receive physical delivery of individual definitive bonds. The bonds are not issuable in bearer form.

Global Bonds

Upon the issuance of the Regulation S Global Bond and the Restricted Global Bond, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global bond will be limited to persons who have accounts with DTC ("DTC Participants") or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the bonds represented by such global bond for all purposes under the indenture and the bonds. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depositary for a global bond, or ceases to be a "clearing agency" registered under the Exchange Act, or any of the bonds becomes immediately due and payable in accordance with "Description of the Bonds—Events of Default," owners of beneficial interests in a global bond will not be entitled to have any portions of such global bond registered in their names, will not receive or be entitled to receive physical delivery of bonds in individual definitive form and will not be considered the owners or holders of the global bond (or any bonds represented thereby) under the indenture or the bonds. In addition, no beneficial owner of an interest in a global bond will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream Luxembourg).

Investors may hold interests in the global bond through Euroclear or Clearstream Luxembourg, if they are participants in such systems. Euroclear and Clearstream Luxembourg will hold interests in the global bonds on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in the global bond in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in the Restricted Global Bond directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants.

Payments of the principal of and interest on global bonds will be made to DTC or its nominee as the registered owner thereof. None of the Issuer, the Guarantors or the initial purchasers will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer anticipates that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global bond representing any bonds held by its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global bond as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global bond held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global bond to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global bond to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest. Transfers between accountholders in Euroclear and Clearstream Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the bonds described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream Luxembourg account holders, on the other hand, will be effected at DTC in accordance with DTC rules on behalf of Euroclear or Clearstream Luxembourg, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Bond in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream Luxembourg account holders may not deliver instructions directly to the depositaries for Euroclear or Clearstream Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream Luxembourg account holder purchasing an interest in a global bond from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global bond settled during such processing day will be reported to the relevant Euroclear or Clearstream Luxembourg accountholder on such day. Cash received in Euroclear or Clearstream Luxembourg as a result of sales of interests in a global bond by or through a Euroclear or Clearstream Luxembourg account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by holder of bonds (including the presentation of bonds for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global bonds are credited and only in respect of such portion of the aggregate principal amount of the bonds as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described below, DTC will exchange the global bonds for individual definitive bonds (in the case of bonds represented by the Restricted Global Bond, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global bonds through DTC Participants have no direct rights to enforce such interests while the bonds are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global bond will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Bond and in the Restricted Global Bond among participants and accountholders of DTC, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the trustee will have any responsibility for the performance of DTC, Euroclear or Clearstream Luxembourg or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Individual Definitive Bonds

If (1) DTC is at any time unwilling or unable to continue as a depositary or DTC ceases to be a registered “clearing agency” and a successor depositary is not appointed by the Issuer within 90 days or (2) any of the bonds has become immediately due and payable in accordance with “Description of the Bonds—Events of Default,” the Issuer will issue individual definitive bonds in registered form in exchange or transfer for the Regulation S Global Bond and the Restricted Global Bond, as the case may be. Upon receipt of such notice from DTC or the trustee, as the case may be, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global bonds for individual definitive bonds and cause the requested individual definitive bonds to be executed and delivered to the trustee in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global bond for individual definitive bonds will be required to provide the registrar with (a) written instruction and other information required by the Issuer and the trustee to complete, execute and deliver such individual definitive bonds and (b) in the case of an exchange of an interest in a Restricted Global Bond, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive bonds delivered in exchange for any global bond or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive bonds issued in exchange for the Restricted Global Bond, such individual definitive bonds will bear, and be subject to, the legend described in "Notice to Investors" (unless the Issuer determines otherwise in accordance with applicable law). The holder of a restricted individual definitive bond may transfer such bond, subject to compliance with the provisions of such legend, as provided in "Description of the Bonds." Upon the transfer, exchange or replacement of bonds bearing the legend, or upon specific request for removal of the legend on a bond, the Issuer will deliver only bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any individual definitive bond may be transferred to a person who takes delivery in the form of an interest in any global bond, the transferor will be required to provide the principal paying agent with a Restricted Global Bond Certificate or a Regulation S Global Bond Certificate, as the case may be.

Individual definitive bonds will not be eligible for clearing and settlement through Euroclear, Clearstream Luxembourg or DTC.

TAXATION

The following discussion summarizes certain Brazilian, British Virgin Islands, U.S. federal income and European Union tax considerations that may be relevant to you if you invest in the bonds. This summary is based on laws and regulations now in effect in Brazil, laws, regulations, rulings and decisions now in effect in the United State and the British Virgin Islands, and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

The following is a general discussion of certain tax considerations for prospective investors in the bonds. The discussion is based upon present law and interpretations of present law as in effect on the date of this offering memorandum, both of which are subject to prospective and retroactive changes. The discussion does not consider any investor's particular circumstances, and it is not intended as tax advice. Each prospective investor is urged to consult its tax advisor about the tax consequences of an investment in the bonds under the laws of the British Virgin Islands, Brazil and the U.S., jurisdictions from which the Issuer or the Company may derive their income or conduct their activities, and jurisdictions where the investor is subject to taxation.

British Virgin Islands Tax Considerations

The tax status of the Issuer under the tax laws of the British Virgin Islands is summarized below. The summary is based on the assumption that the Issuer is owned, managed and operated as contemplated.

The Issuer and all dividends, interest, rents, royalties, compensations and other amounts paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands and any capital gains realized with respect to any bonds (including the bonds), debentures, debt obligations, or other securities of the Issuer by persons who are not persons resident in the British Virgin Islands are exempt from all forms of taxation in the British Virgin Islands. As of January 1, 2005, the Payroll Taxes Act, 2004 came into force. It will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands. The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any bonds, debentures, debt obligation or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the bonds, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the bonds by an individual, entity, trust or organization considered as resident or domiciled outside Brazil for tax purposes, or a Nonresident Holder. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date.

The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the bonds. Prospective investors should consult their own tax advisers as to the consequences of purchasing the bonds, including, without limitation, the consequences of the receipt of interest and the sale, redemption or repayment of the bonds.

Payments on the bonds made from the Issuer and gains on the bonds

Generally, a nonresident holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. Therefore, based on the fact that the Issuer is considered for tax purposes as domiciled abroad, any income (including interest and original issue discount) paid by the Issuer in respect of the bonds issued by it in favor of nonresident holders are not subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by such entity outside of Brazil.

According to article 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a nonresident to another nonresident made outside Brazil, are subject to taxation in Brazil. Based on the fact that the bonds are issued abroad the Company believes that, the bonds will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, gains on the sale or other disposition of the bonds made outside Brazil by a nonresident holder, other than a branch or a subsidiary of Brazilian resident, to another nonresident holder and, consequently, would not be subject to Brazilian taxes. Although, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts.

On the other hand, gains made by a Nonresident Holder from the sale or other disposition of the bonds to a Brazilian resident, are subject to Brazilian income tax at rate of 15.0%, or 25.0%.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the bonds by a nonresident holder, except for gift inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

Payments on the bonds made from the Guarantors

If an interest payment is made to the Nonresident Holder by a Brazilian guarantor in respect of the bonds, such as by the Company, such payment will be generally subject to income tax withheld at source, being the rate variable depending on the characterization of the payment by the Brazilian tax authorities and the location of the Nonresident Holder, at a maximum rate of 25.0%.

If the guarantor is required to assume the obligation to pay the principal amount of the bonds to the Nonresident Holder, Brazilian tax authorities could attempt to impose withholding income tax. Although Brazilian legislation does not provide for a specific tax rule for such cases and there is not an official position from tax authorities or precedents from the Brazilian courts regarding the matter, there are arguments to discuss that the remittance of funds by a Brazilian guarantor for the payment of the principal amount of the bonds will not be subject to imposition of income tax, because the mere fact that the guarantor is making the payment does not convert the nature of the principal due into income of the beneficiary, and, therefore, the income tax would only be applicable on the interest payments. If the above position does not prevail in the case of a tax dispute, the amounts remitted abroad could be subject to the Brazilian withholding income tax at a rate of up to 25.0%.

In the event of withholding or deduction for or on account of Brazilian taxes, the Issuer and the Company will, subject to certain exceptions, pay additional amounts in respect of such withholding or deduction so that the net amount received by the holder after such withholding or deduction equals the amount of principal or interest that would have been received in the absence of such withholding or deduction. See "Description of the Bonds—Additional Amounts". In addition, payments made from Brazil are taxed with tax of foreign exchange transactions (IOF/Câmbio), which is levied on the conversion of Brazilian currency into foreign currency at a current rate of 0.38% (although the Brazilian Federal Government may increase such rate up to 25.0%, but only with respect to future transactions).

Certain U.S. Federal Income Tax Considerations

CIRCULAR 230 NOTICE: THE DISCUSSION BELOW IS NOT GIVEN IN THE FORM OF A COVERED OPINION, WITHIN THE MEANING OF CIRCULAR 230 ISSUED BY THE U.S. SECRETARY OF THE TREASURY. THUS, THE COMPANY IS REQUIRED TO INFORM YOU THAT THIS SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS WITH RESPECT TO AN INVESTMENT IN THE BONDS WAS NOT INTENDED OR WRITTEN, AND CANNOT BE USED BY ANY INVESTOR, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR. THIS SUMMARY HAS BEEN WRITTEN TO SUPPORT THE PROMOTION AND MARKETING OF THE BONDS. PROSPECTIVE INVESTORS ARE URGED TO SEEK ADVICE BASED UPON THEIR OWN PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a bond that is, for U.S. federal income tax purposes a citizen or resident of the U.S. or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the bond (a "U.S. Holder"). This summary does not address the U.S. federal income tax consequences relevant to a holder that is not a U.S. Holder of the bonds. This summary is for general information only and does not consider all aspects of U.S. federal income taxation or other taxes that may be relevant to the purchase, ownership and disposition of the bonds. It does not describe any tax consequences arising out of the tax laws of any state, local or non-U.S. jurisdiction. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect). There can be no assurance that the Internal Revenue Service (the "IRS") will not take positions concerning the U.S. federal income tax consequences of the purchase, ownership or disposition of the bonds that are different from those discussed below. This summary deals only with U.S. Holders that will hold bonds as capital assets (generally, property held for investment purposes). This summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, thrifts or other financial institutions or financial services companies, tax-exempt entities, insurance companies, pension funds, dealers in securities or currencies, regulated investment companies or real estate investment trusts, traders in securities electing mark to market tax accounting, persons subject to the alternative minimum tax, persons that will hold bonds as a position in a "straddle", or a hedging or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, or persons that have a "functional currency" other than the U.S. dollar.

If any entity that is treated as a partnership for U.S. federal income tax purposes holds the bonds, the U.S. federal income tax treatment generally will depend upon the activities of the partnership and the status of the partners. Prospective purchasers that are partnerships should consult their independent tax advisers concerning the U.S. federal income tax consequences to their partners of the purchase, ownership and disposition of the bonds by the partnership.

The Issuer will elect to be treated as disregarded entity for U.S. federal income tax purposes. As such, the payments from the Issuer will be treated as being payments made from the Company for U.S. federal income tax purposes.

Characterization of the bonds

The Company believes that the bonds constitute debt for U.S. federal income tax purposes and intends to treat them as such. The discussion below assumes that the bonds constitute debt for U.S. federal income tax purposes.

Payments of interest

The Company expects, and this discussion assumes, that the bonds will be issued with no more than a *de minimis* amount of original issue discount. Therefore, subject to the purchase price discussion below in "-Market Discount,"payments of interest on a bond (which may include additional amounts) will generally be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder's regular method of tax accounting. Interest income in respect of the bonds will constitute foreign source income for U.S. federal income tax purposes and will fall into the "passive category income" basket for foreign tax credit purposes, unless it is earned in connection with a financial, insurance or banking business, in which case it will constitute "general category income." The calculation of foreign tax credits involves the application of complex rules that depend on a U.S. Holder's particular circumstances. U.S. Holders should consult their independent tax advisors regarding the availability of foreign tax credits, including credits for any income tax imposed by the British Virgin Islands or by Brazil, and the treatment of additional amounts. See discussion above of "Description of the Bonds—Additional Amounts" in this offering memorandum.

Market Discount

If a U.S. Holder that purchases a bond for an amount that is less than its stated redemption price at maturity, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified de minimis amount. Generally, the purchase price of the bonds includes any pre-purchase interest that has accrued with respect to the bonds. Alternatively, although the matter is not free from doubt, the Company believes a U.S. Holder may elect under Treas. Reg. § 1.1273-2(m) to exclude pre-purchase accrued interest from its purchase price. In such case, the U.S. Holder would exclude from income a portion of the first interest payment on the bonds attributable to such pre-purchase accrued interest. U.S. Holders should consult their independent tax advisors regarding the determination of the bonds' purchase price for market discount and premium purposes. A U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other taxable disposition of a bond as ordinary income to the extent of the market discount accrued on the bond at the time of the payment or disposition unless the U.S. Holder has previously included in income this market discount pursuant to an election to include market discount in income as it accrues, or pursuant to a constant yield election. If the bond is disposed of in certain non-taxable transactions, accrued market discount will be included as ordinary income to the U.S. Holder as if the bond had been sold in a taxable transaction at its then fair market value. In addition, a U.S. Holder may be required to defer, until the maturity of the bond or its earlier disposition (including certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such bond.

Amortizable Bond Premium

If a U.S. Holder's tax basis in a bond (taking into account the purchase price discussion above in "--Market Discount"), immediately after its purchase, is greater than the stated redemption price at maturity of the bond, the U.S. Holder will be considered to have purchased the bond with amortizable bond premium. Amortizable bond premium with respect to any bond will be equal in amount to the excess, if any, of the tax basis (reduced as set forth in the following sentence) over the stated redemption price at maturity of the bond. A U.S. Holder may elect to amortize any such bond premium, using a constant yield method, over the remaining term of the bond. A U.S. Holder may use the amortizable bond premium allocable to an accrual period to offset qualified stated interest required to be included in such U.S. Holder's income with respect to the bond in that accrual period. A U.S. Holder that elects to amortize bond premium must reduce its tax basis in the bond by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by such U.S. Holder and may be revoked only with the consent of the IRS.

Sale, exchange, retirement or other taxable disposition of bonds

A U.S. Holder will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a bond in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other taxable disposition (except to the extent attributable to accrued and unpaid interest on the bond, which will be taxed as ordinary income to the extent the U.S. Holder has not previously recognized this income) and such U.S. Holder's adjusted tax basis in the bond. A U.S. Holder's adjusted tax basis in the bond will generally equal the U.S. Holder's cost for the bond, increased by any market discount that such U.S. Holder has previously included in income with respect to the bond and decreased by the amount of payments of principal and any amortizable bond premium that the U.S. Holder has taken into account with respect to the bond. Except as set forth above under "--Market Discount," any such gain or loss recognized by a U.S. Holder upon the sale, exchange, retirement or other taxable disposition of a bond will be long-term capital gain or loss if the U.S. Holder has held the bond for more than one year. The deductibility of capital losses is subject to certain limitations. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a bond will generally be U.S. source gain or loss for U.S. federal income tax purposes unless it is attributable to an office or other fixed place of business outside the

United States and certain other conditions are met. Accordingly, if any gain from the sale or exchange of bonds is subject to Brazilian or other foreign income tax, a U.S. Holder may not be able to credit such taxes against its U.S. federal income tax liability, because such gain generally would be U.S. source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, a U.S. Holder may deduct any foreign income taxes, provided that the U.S. Holder does not credit any foreign income taxes paid or accrued in the same taxable year.

Backup withholding and information reporting

A U.S. Holder may be subject to information reporting requirements and "backup withholding" (currently at a rate of 28.0%) with respect to cash payments of principal and interest on the bonds and on the gross proceeds from dispositions of the bonds, unless the holder (i) is a corporation or comes within certain other exempt categories and demonstrates this fact when so required, or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules generally will be creditable against the U.S. Holder's U.S. federal income tax liability or available as a refund provided the U.S. Holder timely provides the required information to the IRS.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, INVESTORS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS AS TO PARTICULAR TAX CONSEQUENCES TO THEM OF PURCHASING, OWNING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR NON-U.S. TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAWS.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA, imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, the ERISA plans) and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA plan’s investments be made in accordance with the documents governing the ERISA plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, prohibit certain transactions involving the assets of an ERISA plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA plans, the Plans) and certain persons (referred to as “parties in interest” for purposes of ERISA or “disqualified persons” for purposes of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that purposes to purchase and hold any bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the Issuer or any of its respective affiliates. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold the bonds on behalf of a Plan, Section 408(b)(17) of ERISA or Prohibited Transaction Class Exemption or PTCE 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts, PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company pooled separate accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the Class Exemptions) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the bonds.

By its purchase of any bonds, the purchaser thereof, and any transferee thereof, will be deemed to have represented and agreed either that (a) it is not and for so long as it holds the bonds will not be an ERISA plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other governmental plan, church plan or non-U.S. plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase and holding of the bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. plan, any substantially similar federal, state, local or foreign law) for which an exemption is not available.

Governmental plans, non-U.S. plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state, local or foreign laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any bonds.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any bonds should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of bonds to a Plan is in no respect a representation by the Issuer, the Company, the Guarantors or the Initial Purchasers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

The European Union has adopted a Directive regarding the taxation of savings income (the "EU Tax Directive"). Countries that are member states of the European Union ("Member States") are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

In certain circumstances, the withholding tax provisions of the EU Tax Directive could apply to payments on bonds that are made or received in Austria, Belgium or Luxembourg. It is expected that holders will be able to take steps to keep payments from being subject to such withholding tax, for example, by using a procedure (or procedures) to be made available pursuant to the EU Tax Directive (namely, releasing the paying agent of its professional secrecy duty to the extent permitted by law or by producing an appropriate tax certificate), or by receiving payments from a paying agent within the European Union but outside Austria, Belgium and Luxembourg, although the Company cannot preclude the possibility that withholding tax will eventually be levied in some situations. In any event, details of payments made on bonds from a Member State will likely have to be reported to tax or other relevant authorities under the EU Tax Directive or local law, including, for example, to Member States in cases where recipients are located in the jurisdiction where payments are actually made.

NOTICE TO INVESTORS

General

The bonds (including the guarantees) have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the bonds may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the bonds are being offered and sold only:

- in the U.S. to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the U.S., to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of bonds (other than the initial purchasers in connection with the initial issuance and sale of bonds) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) It is purchasing the bonds for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the U.S. and is purchasing the bonds in compliance with Regulation S.

(2) It acknowledges that the bonds have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except as set forth below.

(3) It understands and agrees that bonds initially offered in the U.S. to qualified institutional buyers will be represented by one or more global bonds and that bonds offered outside the U.S. in reliance on Regulation S will also be represented by one or more global bonds.

(4) It agrees, on its own behalf and on behalf of any investor account for which it is purchasing the bonds, that it will not resell or otherwise transfer any of such bonds except (a) to the Issuer, (b) within the U.S. to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the U.S. in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act.

(5) It agrees that it will give to each person to whom it transfers the bonds notice of any restrictions on transfer of such bonds.

(6) It acknowledges that prior to any proposed transfer of bonds (other than pursuant to an effective registration statement or in respect of bonds sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such bonds may be required to provide certifications relating to the manner of such transfer as provided in the indenture.

(7) It acknowledges that the trustee, registrar or transfer agent for the bonds will not be required to accept for registration transfer of any bonds acquired by it, except upon presentation of evidence satisfactory to the Issuer and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.

(8) It acknowledges that if it is a purchaser in a sale that occurs outside of the U.S. within the meaning of Regulation S, the above restrictions on resale will apply until the expiration of the "40-day distribution

compliance period" within the meaning of Rule 903 of Regulation S, and any offer or sale of the bonds shall not be made by it to a U.S. person or for the benefit or account of a U.S. person within the meaning on Rule 902 under the Securities Act.

(9) Either that (a) is not and for so long as it holds the bonds will not be an ERISA plan or other Plan, an entity whose underlying assets of any such ERISA Plan or other governmental plan, church plan or foreign plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase and holding of the bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or foreign plan, substantially similar federal, state, local or foreign law) for which an exemption is not available.

(10) It acknowledges that the Issuer, the Guarantors, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the bonds are no longer accurate, it will promptly notify the Issuer, the Guarantors and the initial purchasers. If it is acquiring the bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of the Rule 144A global bond, and which will be used to notify transferees of the foregoing restrictions on transfer:

"This bond has not been registered under the U.S. Securities Act of 1933, as amended (the 'Securities Act'), or any other securities laws. The holder hereof, by purchasing this bond, agrees that this bond or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (i) to the Issuer, (ii) so long as this bond is eligible for resale pursuant to Rule 144A under the Securities Act ('Rule 144A'), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the U.S. or other applicable jurisdiction and in accordance with the transfer restrictions contained in the indenture under which this bond was issued. The holder hereof, by purchasing this bond, represents and agrees that it will notify any purchaser of this bond from it of the resale restrictions referred to above.

The foregoing legend may be removed from this bond on satisfaction of the conditions specified in the indenture referred to herein."

The following is the form of restrictive legend which will appear on the face of the Regulation S global bond and which will be used to notify transferees of the foregoing restrictions on transfer:

"This bond has not been registered under the U.S. Securities Act of 1933, as amended (the 'Securities Act'), or any other securities laws. The holder hereof, by purchasing this bond, agrees that neither this bond nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this bond after 40 days beginning on and including the later of (a) the date on which the bonds are offered to persons other than distributions (as defined in Regulation S under the Securities Act) and (b) the original issue date of this bond."

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global bonds and certificated bonds, see “Form of Bonds.”

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a company incorporated with limited liability under the laws of the British Virgin Islands. Each of the Guarantors is a corporation organized under the laws of Brazil. Substantially all of its directors and officers and independent accountants and substantially all of the directors and officers and independent accountants of the Guarantors, and some of the advisors named herein, reside in Brazil or elsewhere outside the U.S., and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Guarantors are, located outside the U.S.. As a result, it may not be possible for investors to effect service of process within the U.S. or other jurisdictions outside Brazil and the British Virgin Islands upon such persons, or to enforce against them or against the Issuer judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the bonds, the Issuer and the Guarantors will (i) agree that the courts of the State of New York and the federal courts of the U.S., in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the bonds and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Bonds."

The Issuer and the Guarantors have been advised by their British Virgin Islands counsel, Walkers, that there is uncertainty as to whether the courts of the British Virgin Islands would (1) recognize or enforce judgments of U.S. courts obtained against the Issuer or such persons predicated upon the civil liability provisions of the securities laws of the U.S. or any state thereof, or (2) be competent to hear original actions brought in the British Virgin Islands, against the Issuer or such persons, predicated upon the securities laws of the U.S. or any state thereof.

Walkers has further advised the Issuer and the Guarantors that a final and conclusive judgment in federal or state courts of the U.S. under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the courts of the British Virgin Islands under the common law doctrine of obligation.

The Issuer's and the Guarantors' British Virgin Islands counsel has advised them that the courts of the British Virgin Islands will recognize and enforce a foreign judgment without re examining the merits of that judgment so long as:

- it is final;
- the court had jurisdiction over the defendant according to British Virgin Islands conflict of law rules and the defendant was duly served with process;
- the judgment given by such court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the defendant;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to the rules of public policy of the British Virgin Islands courts; and
- the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Nevertheless, neither the Issuer nor any of the Guarantors knows whether you would be able to enforce liabilities based on the federal securities laws of the U.S. in the British Virgin Islands. The Issuer and the Guarantors also do not know whether British Virgin Islands courts would enforce judgments of U.S. courts based on the civil liability provisions of the federal securities laws of the U.S.

The Issuer and the Guarantors have been advised by Machado, Meyer, Sendacz e Opice Advogados, their Brazilian counsel, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil, including the U.S. securities laws, subject to certain requirements described below, may be enforced in Brazil. A judgment against either the Issuer or any Guarantor or any of their respective directors, officers, independent auditors or advisors obtained outside Brazil would be enforceable in Brazil against it or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is for a sum certain;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, none of the Issuer or the Guarantors can assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil, including the U.S. securities laws.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a note to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This note must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement dated to be entered into among the Issuer, the Guarantors and the initial purchasers, the Issuer has agreed to sell to the initial purchasers and the initial purchasers have severally agreed to purchase, the following respective principal amount of bonds listed opposite their name below:

Initial Purchasers	Principal Amount
ABN AMRO Incorporated	US$166,666,666
HSBC Securities (USA) Inc.	US$166,666,666
J.P. Morgan Securities Inc.	US$166,666,668
Total	US$500,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase the bonds are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the bonds if it purchases any of the bonds.

The Issuer and the Guarantors have been advised that the initial purchasers propose to resell the bonds at the offering price set forth on the cover page of this offering memorandum within the U.S. to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the U.S. in reliance on Regulation S. See "Notice to Investors." The price at which the bonds are offered may be changed at any time without notice. The initial purchasers may resell the bonds through their respective affiliates.

The bonds and the guarantees of the bonds have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Notice to Investors."

Accordingly, in connection with sales outside the U.S., each initial purchaser has agreed that, except as permitted by the purchase agreement and set forth in the "Notice to Investors," it will not offer or sell the bonds within the U.S. or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells bonds during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the bonds within the U.S. or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of bonds within the U.S. by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

During the period from the date hereof through and including the date that is 30 days after the date of the purchase agreement related to the bonds which is referred to above, the Company and each of the Guarantors will not, without the prior written consent of the initial purchasers, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Company or any of the Guarantors and having a tenor of more than one year in the international capital markets.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of bonds to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the initial purchasers for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

Provided that no such offer of bonds shall require the Issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of bonds to the public" in relation to any bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the bonds to be offered so as to enable an investor to decide to purchase or subscribe the bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each initial purchaser has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of any bonds included in this offering in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the bonds included in this offering in, from or otherwise involving the United Kingdom;

Each initial purchaser has represented, warranted and agreed that it has not offered or sold and will not offer or sell the bonds publicly (as defined for purposes of the securities laws in Brazil) in Brazil.

The bonds are expected to be listed on the Euro MTF Market of the Luxembourg Stock Exchange. However, neither the Issuer nor any of the Guarantors can assure you that the prices at which the bonds will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the bonds will develop and continue after this offering. The initial purchasers have advised the Issuer and the Guarantors that they currently intend to make a market in the bonds. However, the initial purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the bonds at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, neither the Issuer nor any of the Guarantors can assure you as to the liquidity of or the trading market for the bonds.

In connection with this offering, the initial purchasers may purchase and sell bonds in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of bonds in excess of the principal amount of bonds to be purchased by the initial purchasers in this offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of bonds made for the purpose of preventing or retarding a decline in the market price of the bonds while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

The Issuer expects to deliver the bonds against payment for the bonds on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the bonds. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade bonds on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the bonds initially will settle in T+3, to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchasers have performed commercial banking, investment banking and advisory services for the Company from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantors and their affiliates in the ordinary course of their business.

The Issuer and the Guarantors have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

LEGAL MATTERS

The validity of the bonds offered and sold in this offering will be passed upon for the Issuer and the Guarantors by Greenberg Traurig, LLP, and for the initial purchasers by Shearman & Sterling LLP. Certain matters of Brazilian law relating to the bonds and the guarantees will be passed upon for the Issuer and the Guarantors by Machado, Meyer, Sendacz e Opice Advogados, São Paulo, Brazil. Souza, Cescon Avedissian, Barrieu e Flesch Advogados, São Paulo, Brazil, will pass upon certain matters of Brazilian law relating to the bonds and the guarantees for the initial purchasers. Certain matters of British Virgin Islands law relating to the bonds will be passed upon for the Issuer and the Guarantors and the initial purchasers by Walkers.

INDEPENDENT ACCOUNTANTS

The Company’s consolidated financial statements as of December 31, 2006 and for the years ended December 31, 2006 and 2005, included in this offering memorandum have been audited by PricewaterhouseCoopers Auditores Independentes, independent accountants, as stated in their report appearing herein.

The consolidated financial statements of Gerdau S.A., as of and for the year ended December 31, 2007, included in this offering memorandum, and the effectiveness of Gerdau S.A.'s internal control over financial reporting have been audited by Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm, as stated in their report, included herein, which report expresses an unqualified opinion on the financial statements and includes an explanatory paragraph concerning the adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, effective January 1, 2007 and expresses an unqualified opinion on the effectiveness of internal control over financial reporting.

The consolidated financial statements of Chaparral as of May 31, 2007 and 2006 and for each of the three years in the period ended May 31, 2007 included in the Company’s Form 6-K filed with the SEC on April 11, 2008 and incorporated by reference herein have been audited by Ernst & Young LLP, independent registered public accountants, as stated in their report included therein.

LISTING AND GENERAL INFORMATION

1. The bonds represented by the temporary Regulation S Global Bond have been accepted for clearance through Euroclear and Clearstream Luxembourg with temporary common code of 036163135, a temporary CUSIP number of G2440J AF2 and a temporary ISIN of USG2440JAF24. After the 40th day following the date of delivery of the bonds, the temporary Regulation S Global Bond will be replaced by a permanent Regulation S Global Bond which will have the same common code, CUSIP number and ISIN as the existing bonds, as set forth below. The Common Code, CUSIP and ISIN numbers for the bonds represented by the Restricted Global Bond are also set forth below:

	Restricted Global Bond	Regulation S Global Bond
CUSIP	36120PAB9	G2440JAE5
Common Code	032736718	032736726
ISIN	US36120PAB94	USG2440JAE58

2. The existing bonds are currently listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market.

3. Copies of the Company’s audited annual financial statements for its two most recently ended fiscal years and its latest unaudited quarterly financial statements, if any, may be obtained at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent. The Issuer does not separately provide financial statements. Copies of the Issuer’s by-laws, and the by-laws of each Guarantor, as well as the indenture (including forms of bonds and the guarantee), will be available for inspection at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

4. Except as disclosed in this offering memorandum, there has been no material adverse change in the Company's financial position since December 31, 2007, the date of the latest audited financial statements included in this offering memorandum.

5. Except as disclosed in this offering memorandum, none of the Company, the Issuer, or the Guarantors is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as the Company and the Issuer are aware is any such litigation or arbitration pending or threatened.

6. Copies of the Issuer's memorandum and articles of association and the *estatutos sociais* (by-laws) of each Guarantor, as well as the indenture (including forms of the bonds and the guarantee), will be available for inspection at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

7. So long as the bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer shall appoint and maintain a paying agent in Luxembourg, where the bonds may be presented or surrendered for payment or redemption, in the event that the global bonds are exchanged for definitive certificated bonds. In addition, in the event that the global bonds are exchanged for definitive certificated bonds, announcement of such exchange shall be made through the Luxembourg Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive certificated bonds, including details of the paying agent in Luxembourg.

8. In addition to being mailed to the holders, so long as the bonds are listed on the Luxembourg Stock Exchange, copies of all notices to the holders will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. The Company may apply to remove the bonds from listing on the Luxembourg Stock Exchange if the Issuer and the Guarantors reasonably believe that remaining listed on the Luxembourg Stock Exchange would impose burdensome financial reporting or other requirements, or costs relating thereto.

9. The issuance of the bonds offered hereby was authorized by the Issuer's board of directors on May 7, 2008. The execution of the guarantee relating to such bonds was authorized by the board of directors of Gerdau and each of the other Guarantors on May 7, 2008.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. GAAP FINANCIAL STATEMENTS

Audited consolidated financial statements of Gerdau S.A. as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005

GERDAU S.A.

Consolidated financial statements
as of December 31, 2007 and 2006 and
for each of the three years in the period
ended December 31, 2007
and reports of independent registered public accounting firms

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The management of Gerdau S.A. is responsible for the implementation, effectiveness and maintenance of an effective system of internal control over Financial Reporting.

The Company's internal control over Financial Reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over Financial Reporting may not prevent or detect misstatements on timely basis. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over Financial Reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework*, issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO")*.

This assessment excluded the main acquisitions in the period, as Siderurgica Zuliana, in Venezuela, Multisteel Business Holdings Corp and its subsidiaries, in Dominican Republic, and Feld Group and its subsidiaries (including Siderurgica Tultitlán), in Mexico, and the acquisitions made by ours subsidiaries. The Corporación Sidenor has acquired Trefilados de Urbina, or Trefusa, while Gerdau Ameristeel Corporation made the acquisition of Chaparral Steel Company and its subsidiaries, and Enco Materials Inc. These purchase business combinations occurred in the current year (2007).

Total assets and total net sales of the entities acquired represent 22.35% and 4.65%, respectively, of the corresponding consolidated financial statements amounts as of and for the year ended December 31, 2007, as shown in the table below:

	Total Assets	Total Net Sales*
CHAPARRAL	20.27%	3.26%
OTHERS	2.08%	1.39%
Total	22.35%	4.65%

* The Income Statement amounts are consolidated as from the acquisition date.

Based on that assessment, Management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report is included herein.

Porto Alegre, Brazil
March 31, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
Gerdau S.A.
Rio de Janeiro, Brazil

We have audited the internal control over financial reporting of Gerdau S.A. and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at the following subsidiaries:

- Chaparral Steel Company and its subsidiaries, in the United States, which was acquired on September 14, 2007 and whose financial statements constitute 38.56% and 20.27 % of net and total assets, respectively, 3.26% of revenues, and 13.66% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007;
- Feld Group and its subsidiaries, in Mexico, which was acquired on March 28, 2007; Siderurgica Zuliana, in Venezuela, which was acquired on June 15, 2007; Enco Materials Inc., in the United States which was acquired on October 1, 2007; and Trefilados de Urbina, in Spain, which was acquired on October 19, 2007 whose combined financial statements constitute 5.07% and 2.08% of net and total assets, respectively, 1.39% of revenues, and 0.09% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007.

Accordingly, our audit did not include the internal control over financial reporting for the above mentioned subsidiaries. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United State of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 31, 2008 expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph concerning the adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, effective January 1, 2007.

/s/ Deloitte Touche Tohmatsu
Deloitte Touche Tohmatsu Auditores Independentes
Rio de Janeiro, Brazil
March 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Gerdau S.A.
Rio de Janeiro, Brazil

We have audited the accompanying consolidated balance sheets of Gerdau S.A. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Gerdau S.A. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2.3 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, effective January 1, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu
Deloitte Touche Tohmatsu Auditores Independentes
Rio de Janeiro, Brazil
March 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board and Directors and shareholders of
Gerdau S.A.

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated balance sheet and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in shareholders´ equity present fairly, in all material respects, the financial position of Gerdau S.A. and its subsidiaries at December 31, 2006, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of: (a) Gallatin Steel Company, a 50% owned joint venture, for which the Company's net investment amounted to US$ 158,800 thousand as of December 31, 2006, and equity in income amounted to US$ 115,606 thousand and US$ 91,201 thousand for each of the two years in the period ended December 31, 2006, and (b) Aços Villares S.A. a subsidiary, which statements reflect total assets and total net sales which amounted to 7.8% and 6.5%, respectively, of the related consolidated totals as of and for the year ended December 31, 2006. Those statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Gallatin Steel Company and Aços Villares S.A., is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes
Porto Alegre, Brazil
April 20, 2007

GERDAU S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2007 and 2006
(in thousands of U.S. Dollars, except number of shares)

ASSETS

	Note	2007	2006
Current assets			
Cash and cash equivalents		1,137,553	485,498
Restricted cash		6,580	13,512
Short-term investments			
Trading	5	1,601,594	2,221,422
Available for sale	5	156,029	123,430
Held to maturity		—	138,200
Trade accounts receivable, net	6	1,781,357	1,283,420
Inventories	7	3,416,605	2,380,878
Unrealized gains on derivatives	21	8	2,660
Deferred income taxes	18.4	43,734	51,730
Tax credits	8	340,625	253,519
Prepaid expenses		61,383	39,301
Other		134,601	90,860
Total current assets		8,680,069	7,084,430
Non-current assets			
Property, plant and equipment, net	10	8,619,714	5,990,629
Deferred income taxes	18.4	137,650	187,710
Judicial deposits	16.1	126,311	80,103
Unrealized gains on derivatives	21	877	6,623
Tax credits	8	339,830	192,967
Equity investments	11	317,217	197,511
Investments at cost		17,281	11,377
Intangible assets, net	12	609,206	23,085
Goodwill	12	3,535,326	336,768
Prepaid pension cost	13	393,842	243,558
Advance payment for acquisition of investment		34,895	14,895
Other		158,412	119,209
Total assets		22,970,630	14,488,865

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2007 and 2006
(in thousands of U.S. Dollars, except number of shares)

LIABILITIES

	Note	2007	2006
Current liabilities			
Short-term debt	14	762,764	503,299
Current portion of long-term debt	15	655,229	561,821
Trade accounts payable		1,455,011	1,113,338
Income taxes payable		52,262	41,810
Unrealized losses on derivatives	21	1,109	1,258
Deferred income taxes	18.4	55,758	25,230
Payroll and related liabilities		292,522	177,421
Dividends and interest on equity payable		655	99,003
Taxes payable, other than income taxes		219,241	182,136
Other		286,093	218,987
Total current liabilities		3,780,644	2,924,303
Non-current liabilities			
Long-term debt, less current portion	15	7,053,916	3,128,868
Debentures	15	509,880	443,280
Deferred income taxes	18.4	853,128	416,046
Accrued pension and other post-retirement benefits obligation	13	425,307	318,564
Provision for contingencies	16.1	265,326	189,725
Unrealized losses on derivatives	21	9,093	10,489
Deferred credit related to acquisition of Corporación Sidenor	4.o	90,089	106,899
Other		174,839	137,561
Total non-current liabilities		9,381,578	4,751,432
Total liabilities		13,162,222	7,675,735
Commitments and contingencies	16		
Minority interest		2,804,949	1,882,489
SHAREHOLDERS' EQUITY	17		
Preferred shares - no par value - 800,000,000 authorized shares and 435,986,041 shares issued at December 31, 2007 and 2006.		2,253,377	2,253,377
Common shares - no par value - 400,000,000 authorized shares and 231,607,008 shares issued at December 31, 2007 and 2006.		1,179,236	1,179,236
Additional paid-in capital		134,490	131,546
Treasury stock - 4,966,651 and 5,103,345 preferred shares at December 31, 2007 and 2006, respectively.		(44,778)	(46,010)
Legal reserve		154,420	74,420
Retained earnings		2,569,255	1,459,818
Accumulated other comprehensive income (loss)			
- Foreign currency translation adjustment		672,657	(151,798)
- Net gains on pension and postretirement benefits, net of tax		77,030	30,052
- Unrealized gain on available for sale securities		7,772	—
Total shareholders' equity		7,003,459	4,930,641
		22,970,630	14,488,865

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31, 2007, 2006 and 2005
(in thousands of U.S. Dollars, except number of shares)

	Note	2007	2006	2005
Sales		17,708,740	13,180,609	9,984,487
Less: Federal and state taxes		(1,595,088)	(1,174,820)	(986,013)
Less: Discounts		(299,135)	(161,559)	(104,042)
Net sales		15,814,517	11,844,230	8,894,432
Cost of sales		(11,882,779)	(8,777,827)	(6,564,245)
Gross profit		3,931,738	3,066,403	2,330,187
Sales and marketing expenses		(338,645)	(256,064)	(203,244)
General and administrative expenses		(1,041,320)	(821,497)	(466,034)
Other operating (expenses) income, net	27	(17,836)	107,395	(8,246)
Operating income		2,533,937	2,096,237	1,652,663
Financial expenses		(628,098)	(437,130)	(227,758)
Financial income		426,657	458,812	204,483
Foreign exchange gains, net		298,004	132,862	57,861
Losses on derivatives, net		(17,531)	(7,128)	(22,000)
Equity in earnings of unconsolidated companies, net		66,263	118,074	96,476
Income before taxes on income and minority interest		2,679,232	2,361,727	1,761,725
Provision for taxes on income	18			
Current		(419,242)	(442,016)	(347,545)
Deferred		(111,118)	3,115	(117,750)
		(530,360)	(438,901)	(465,295)
Income before minority interest		2,148,872	1,922,826	1,296,430
Minority interest		(532,351)	(409,018)	(178,909)
Net income available for common and preferred shareholder		1,616,521	1,513,808	1,117,521
Per share data (in US$)	19			
Basic earnings per share				
Preferred		2.44	2.28	1.68
Common		2.44	2.28	1.68
Diluted earnings per share				
Preferred		2.42	2.26	1.67
Common		2.42	2.26	1.67
Number of weighted-average common shares outstanding after giving retroactive effect to stock bonus (Note 19) – Basic and diluted		231,607,008	231,607,008	231,607,008
Number of weighted-average preferred shares outstanding after giving retroactive effect to stock bonus (Note 19) – Basic		430,963,351	432,238,895	432,165,971

Number of weighted-average preferred shares outstanding after giving retroactive effect to stock bonus (Note 19) – Diluted	436,751,295	439,241,004	435,855,052

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended December 31, 2007, 2006 and 2005
(in thousands of U.S. Dollars)

	2007	2006	2005
Net income as reported in the consolidated statement of income	1,616,521	1,513,808	1,117,521
Foreign currency translation adjustments	824,455	223,825	246,802
Reversal (constitution) of pension fund additional minimum liability, net of tax	—	15,053	(19,763)
Amortization of unrecognized gains and losses, transition benefit and past service cost, net of tax of $(1,225)	1,650	—	—
Unrealized net gains on pension and postretirement benefits, net of tax	45,328	—	—
Unrealized gain on available for sale securities, net of tax	7,772	—	—
Comprehensive income for the period	2,495,726	1,752,686	1,344,560

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended December 31, 2007, 2006 and 2005
(in thousands of U.S. Dollars, except share data)

	Note	Preferred shares	Common shares	Additional paid-in capital	Treasury stock	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balances as of January 01, 2005		1,016,846	522,358	3,743	(15,256)	122,813	1,509,847	(637,766)	2,522,585
Net income		—	—	—	—	—	1,117,521	—	1,117,521
Capitalization of reserves	17.3	439,633	233,545	—	—	—	(673,178)	—	—
Appropriation of reserves	17.2	—	—	444	—	75,872	(76,316)	—	—
Purchase of treasury preferred shares	17.1	—	—	—	(7,093)	—	—	—	(7,093)
Gain on change of interest	2.6	—	—	129,950	—	—	—	—	129,950
Stock options exercised during the period		—	—	(163)	398	—	—	—	235
Foreign currency translation adjustment		—	—	—	—	—	—	246,802	246,802
Pension fund additional minimum liability, net of tax of $10,181		—	—	—	—	—	—	(19,763)	(19,763)
Dividends - $0.67 per Common share and per Preferred share (*)	17.4	—	—	—	—	—	(446,812)	—	(446,812)
Stock option plan expense recognized during the year	3.13	—	—	173	—	—	—	—	173
Balances as of December 31, 2005		1,456,479	755,903	134,147	(21,951)	198,685	1,431,062	(410,727)	3,543,598
Net income		—	—	—	—	—	1,513,808	—	1,513,808
Capitalization of reserves	17.3	796,898	423,333	—	—	(210,912)	(1,009,319)	—	—
Appropriation of reserves	17.2	—	—	—	—	86,647	(86,647)	—	—
Purchase of treasury preferred shares	17.1	—	—	—	(32,909)	—	—	—	(32,909)
Foreign currency translation adjustment		—	—	—	—	—	—	223,825	223,825
Minimum pension liability, net of tax of $(8,515)		—	—	—	—	—	—	15,053	15,053
SFAS 158 transition amount, net of tax of $(21,597)		—	—	—	—	—	—	50,103	50,103
Dividends - $0.59 per Common share and per Preferred share (*)	17.4	—	—	—	—	—	(389,086)	—	(389,086)
Stock option exercised during the period		—	—	(4,439)	8,850	—	—	—	4,411
Stock option plan expense recognized during the year	3.13	—	—	1,838	—	—	—	—	1,838
Balances as of December 31, 2006		2,253,377	1,179,236	131,546	(46,010)	74,420	1,459,818	(121,746)	4,930,641
Net income		—	—	—	—	—	1,616,521	—	1,616,521
Appropriation of reserves	17.2	—	—	—	—	80,000	(80,000)	—	—
Foreign currency translation adjustment		—	—	—	—	—	—	824,455	824,455
Dividends - $0.64 per Common share and per Preferred share	17.4	—	—	—	—	—	(421,831)	—	(421,831)
Amortization of unrecognized gains and losses, transition benefit and past service cost, net of tax of $(1,225)		—	—	—	—	—	—	1,650	1,650
Net gains from pensions and postretirement plans arising during the year, net of tax of $(24,023)		—	—	—	—	—	—	45,328	45,328
Adoption of FIN 48	18.5	—	—	—	—	—	(2,861)	—	(2,861)
Minority effect over consolidated entities		—	—	—	—	—	(2,150)	—	(2,150)
Unrealized gains on available for sale securities		—	—	—	—	—	—	7,772	7,772
Stock option exercised during the year		—	—	—	1,232	—	(242)	—	990
Stock option plan expense recognized during the year	3.13	—	—	2,944	—	—	—	—	2,944
Balances as of December 31, 2007		2,253,377	1,179,236	134,490	(44,778)	154,420	2,569,255	757,459	7,003,459

(*) After giving retroactive effect to the stock bonus and reverse stock split described in Note 17.1. Preferred treasury stock shares for the years ended December 31, 2007, 2006 and 2005 are not considered to be outstanding.

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENT OF CASH FLOW
for the years ended December 31, 2007, 2006 and 2005
(in thousands of U.S. Dollars, except share data)

	2007	2006	2005
Cash flows from operating activities			
Net income	1,616,521	1,513,808	1,117,521
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	688,303	504,128	301,762
Equity in earnings on unconsolidated companies, net	(66,263)	(118,074)	(96,476)
Foreign exchange gains, net	(298,004)	(132,862)	(57,861)
Losses on derivatives, net	17,531	7,128	22,000
Minority interest	532,351	409,018	178,909
Deferred income taxes	111,118	(3,115)	117,750
Losses (gains) on disposal of property, plant and equipment	46,388	(12,267)	4,655
Provision (reversal) for doubtful accounts	7,327	7,653	(2,863)
Provision for contingencies	43,282	7,911	27,792
Distributions from joint ventures	62,078	101,552	115,828
Facilities closure expenses	3,178	9,400	—
Others	10,344	3,981	—
Changes in assets and liabilities:			
Increase in accounts receivable	(232,937)	(43,740)	(156,261)
(Increase) decrease in inventories	(441,469)	(179,075)	449
Increase (decrease) in accounts payable and accrued liabilities	213,812	40,319	(577)
Increase (decrease) in other assets and liabilities, net	94,658	(404,620)	(68,624)
Purchases of trading securities	(3,126,339)	(3,672,532)	(1,614,838)
Proceeds from maturities and sales of trading securities	4,036,296	3,415,918	455,907
Net cash provided by operating activities	3,318,175	1,454,531	345,073
Cash flows from investing activities			
Additions to property, plant and equipment	(1,328,581)	(1,037,230)	(697,436)
Proceeds from sales of property, plant and equipment	5,993	15,010	6,453
Payment for acquisitions in North America	(4,354,735)	(214,938)	(49,654)
Payment for acquisition in Argentina	(19,046)	(7,982)	(16,688)
Payment for acquisition in Colömbia	—	—	(12,986)
Payment for acquisition in Spain	(25,901)	(350,799)	—
Payment for acquisition in Peru	—	(86,919)	—
Payment for acquisition in Mexico	(258,840)	—	—
Payment for acquisition in Dominican Republic	(42,900)	—	—
Payment for acquisition in Venezuela	(92,499)	—	—
Payment for acquisition in Brazil	(10,490)	—	—
Cash balance of acquired companies	552,578	108,811	9,647
Net related party debt loans and repayments	(95,755)	—	—
Purchases of available for sale securities	(662,221)	(1,531,535)	(140,950)
Proceeds from sales of available for sale securities	620,715	1,408,105	140,950
Proceeds from sales of held to maturities securities	163,194	—	—
Advance payment for acquisition of investment in India	(20,000)	—	—
Net cash used in investing activities	(5,568,488)	(1,697,477)	(760,664)

The accompanying notes are an integral part of these consolidated financial statements.

GERDAU S.A.
CONSOLIDATED STATEMENTS OF CASH FLOW
for the years ended December 31, 2007, 2006 and 2005
(in thousands of U.S. Dollars, except number of shares)

	2007	2006	2005
Cash flows from financing activities			
Cash dividends and interest on equity paid	(537,636)	(445,268)	(420,465)
Purchase of treasury shares	—	(32,909)	(7,093)
Proceeds from exercise of employee stock options	2,248	4,411	235
Decrease (increase) in restricted cash	6,881	(4,845)	(3,554)
Debt issuance	6,178,474	2,123,709	1,630,590
Repayment of debt	(3,302,087)	(1,467,118)	(798,411)
Capital increase in the subsidiary Gerdau Ameristeel through a public offering of shares	512,236	—	—
Proceeds from issuance of common stock by Gerdau Participações	—	—	221,613
Net related party debt loans and repayments	(1,200)	(1,562)	1,973
Net cash provided by financing activities	2,858,916	176,418	624,888
Effect of exchange rate changes on cash	43,452	19,651	74,124
Increase (decrease) in cash and cash equivalents	652,055	(46,877)	283,421
Cash and cash equivalents at beginning of the year	485,498	532,375	248,954
Cash and cash equivalents at end of the year	1,137,553	485,498	532,375
Supplemental cash flow data			
Cash paid during the year for:			
Interest (net of amounts capitalized)	731,185	435,439	285,164
Income taxes	391,591	426,969	341,782
Non-cash transactions			
Funds advanced to acquisiton of Diaco S.A. and Sidelpa S.A. used to settle these transactions on September 30, 2005 and November 30, 2005, respectively	—	—	53,605
Capitalization on related party debt used to increase equity interest on Multisteel Business Holdings Corp. on July, 2, 2007 (Note 4.c)	72,000	—	—
Exchange of shares whereby the Company acquired the ownership of Aplema, in exchange for its interest in Margusa – Maranhão Gusa S.A.	36,642	—	—

The accompanying notes are an integral part of these consolidated financial statements.

1 Operations

Gerdau S.A. is a *sociedade anônima* incorporated as a limited liability company under the laws of the Federative Republic of Brazil. The principal business of Gerdau S.A. ("Gerdau") in Brazil and of its subsidiaries in Canada, Chile, the United States, Uruguay, Colombia, Argentina, Spain, Peru and as from this year also in Mexico and Venezuela (collectively the "Company") comprise the production of crude steel and related long rolled products, drawn products and long specialty products. The Company produces steel based on the mini-mill concept, whereby steel is produced in electric arc furnaces from scrap and pig iron acquired mainly in the region where each mill operates. Gerdau also operates plants which produce steel from iron ore in blast furnaces and through the direct reduction process.

The Company manufactures steel products for use by civil construction, manufacturing, agribusiness as well as specialty steel products. The markets where the Company operates are located in Brazil, the United States, Canada, Chile, Colombia, Spain, Peru and, to a lesser extent, in Argentina, Mexico, Venezuela, Dominican Republic, India and Uruguay.

2 Basis of presentation

2.1 Accounting practices

The accompanying consolidated financial statements has been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), which differ in certain aspects from the accounting practices adopted in Brazil ("Brazilian GAAP") applied by the Company in the preparation of its financial statements for statutory purposes. In accordance with Brazilian Securities Commission (CVM) rules, the Company has started to present its consolidated financial statements to comply with Brazilian Corporate Law requirements under IFRS (International Financial Reporting Standards) beginning on the third quarter of 2007 which are expressed in Brazilian *reais*. Certain reclassifications of prior year's amounts have been made to conform to the presentation adopted for 2007.

2.2 Recently issued accounting standards

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*," ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. No material impact is expected with the adoption of SFAS 157.

In February 2008, the FASB issued FASB Staff Position (FSP FAS 157-1) which amends FASB Statement No. 157, *Fair Value Measurements*, to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, *Business Combinations*, or No. 141 (revised 2007), *Business Combinations*, regardless of whether those assets and liabilities are related to leases. This FSP shall be effective upon the initial adoption of SFAS No. 157. No material impact is expected with the adoption of FSP FAS 157-1.

In February 2008, the FASB issued FASB Staff Position (FSP FAS 157-2) which delays the effective date of FASB Statement No. 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the Board and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of Statement 157. This FSP defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. No material impact is expected with the adoption of FSP FAS 157-2.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and early adoption is allowed under certain circumstances. The Company elected not to apply the fair value option to any of its financial assets or liabilities.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) "*Business Combinations*" ("SFAS 141R"). SFAS 141R replaces FASB Statement No. 141, "*Business Combinations*," ("SFAS 141"). SFAS 141R establishes the requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquire and the goodwill acquired. SFAS 141R also establishes disclosure requirements for business combinations. SFAS 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. For business combinations in which the acquisition date was before the effective date of this Statement, the acquirer shall apply the requirements of Statement 109, as amended by this Statement, prospectively. That is, the acquirer shall not adjust the accounting for prior business combinations for previously recognized changes in acquired tax uncertainties or previously recognized changes in the valuation allowance for acquired deferred tax assets. However, after the effective date of this Statement. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 141R.

In December 2007, the FASB issued SFAS No. 160 "*Non-controlling Interests in Consolidated Financial Statements — an amendment to ARB No. 51*" ("SFAS 160"). SFAS 160 establishes accounting and reporting for minority interests, now termed "non-controlling interests". SFAS 160 requires non-controlling interests to be presented as a separate component of equity and requires the amount of net income attributable to the parent and to the non-controlling interest to be separately identified on the consolidated statement of earnings. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 160.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 161.

2.3 Adoption of new accounting standards

The Company adopted FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities", which amended the guidance on the accounting for planned major maintenance activities, and it specifically precludes the use of the previously acceptable "accrue in advance" method. The Company records expenses for planned major maintenance activities and the costs for plant shutdowns as operating expenses are incurred previously the issuance of this FSP; therefore, no impact for the adoption of this new standard was recorded.

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *"Accounting for Uncertainty in Income Taxes-an interpretation of SFAS No. 109"*. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company will consider many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits.

2.4 Currency translation

The Company has selected the United States dollar as its reporting currency. The U.S. dollar amounts have been translated, following the criteria established in Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" from the financial statements expressed in the local currency of the countries where Gerdau and each subsidiary operates.

The Company's main operations are located in Brazil, the United States, Spain, Canada and Chile. The local currency is the functional currency for those operations. These financial statements, except for those of the subsidiaries located in the United States which already prepare their financial statements in U.S. dollars, are translated from the functional currency into the U.S. dollar. Assets and liabilities are translated at the exchange rate in effect at the end of each year. Average exchange rates are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in "Cumulative other comprehensive loss" within shareholders' equity. Gains and losses on foreign currency denominated transactions are included in the consolidated statement of income.

2.5 Controlling shareholder

As of December 31, 2007, the Company's parent, Metalúrgica Gerdau S.A. ("MG", collectively with its subsidiaries and affiliates, the "Conglomerate") owned 44.86% (December 31, 2006 – 45.15%) of the total capital of the Company. MG's share ownership consisted of 74.89% (December 31, 2006 – 75.73%) of the Company's voting common shares and 28.71% (December 31, 2006 – 25.38%) of its non-voting preferred shares.

2.6 Corporate restructuring

In December 2004, the investments in Gerdau Açominas S.A. ("Gerdau Açominas") and 22% of total shares of Gerdau Internacional Empreendimentos Ltda., a holding company, previously held directly by Gerdau S.A. were transferred to Gerdau Participações S.A., a wholly-owned subsidiary of Gerdau S.A. For statutory purposes, such investments were valued at their fair value based on projections of expected cash flows discounted to present values.

In May 2005, Gerdau Participações S.A. issued new shares to an unrelated party in exchange for cash and was subsequently merged with Gerdau Açominas. As a result of the issuance of shares, the Company recorded a gain in the amount of $129,950. The Company, following the guidance of Staff Accounting Bulletin ("SAB") 5-H, concluded that such gain should be recognized in shareholders' equity under "Gain on change in interest".

Pursuant to SFAS 109 "Accounting for Income Tax", no deferred tax was recorded and tax effects from amortization of goodwill resulting from restructuring are being recognized when realized on the tax return over a 10 year period.

3 Significant accounting policies

The following is a summary of the significant accounting policies adopted in the preparation of the consolidated financial statements.

3.1 Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned operational subsidiaries, as follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	Percentage interest (%)	
	2007	2006
Aceros Cox S.A. (Chile)	98	98
Gerdau Ameristeel Corporation (Canada) and its subsidiaries:	65	65
Ameristeel Bright Bar Inc. (USA)	65	65
Chaparral Steel Company (USA) (See Note 4.g)	65	—
Gerdau Ameristeel MRM Special Sections Inc. (Canada)	65	65
Gerdau Ameristeel Perth Amboy Inc. (USA)	65	65
Gerdau Ameristeel Sayreville Inc. (USA)	65	65
Gerdau Ameristeel US Inc. (USA)	65	65
Sheffield Steel Corporation (USA)	65	65
Pacific Coast Steel Inc. - PCS (USA)*	36	36
Gerdau Açominas S.A. (Brazil) (See Note 4.m)	92	89
Gerdau Aços Especiais S.A. (Brazil) (See Note 4.m.)	92	89
Gerdau Aços Longos S.A. (Brazil) (See Note 4.m.)	92	89
Gerdau América Latina Participações S.A. (Brazil)	89	89
Gerdau Aza S.A. (Chile)	98	98
Gerdau Comercial de Aços S.A. (Brazil) (See Note 4.m.)	92	89
Diaco S.A. (Colômbia)	57	57
Gerdau GTL Mexico, S.A. de C.V. (Mexico) and its subsidiaries (See Note 4.a)	100	—
Siderurgica Tultitlan S.A. de C.V. (Mexico)	100	—
Ferrotultitlán, S.A. de C.V. (Mexico)	100	—
Arrendadora Valle de Mexico, S.A. de C.V. (Mexico)	100	—
Gerdau Internacional Emprendimentos Ltda. (Brazil) and its wholly owned subsidiary Gerdau GTL Spain S. L. (Spain) and subsidiaries	98	98
Gerdau Laisa S.A. (Uruguay)	98	98
Maranhão Gusa S.A. – Margusa (Brazil) (See Note 4.n)	—	89
Paraopeba - Fundo de Investimento Renda Fixa (Brazil)	95	95
Seiva S.A. – Florestas e Indústrias (Brazil)	97	97
Sipar Aceros S.A. (Argentina) (See Note 4.k.)	90	72
Sidelpa S.A. (Colombia)	95	95
Corporación Sidenor S.A. (Spain) and its subsidiaries**	40	40
Sidenor Industrial S.L. (Spain)	40	40
Forjanor S.L. (Spain)	40	40
GSB Aceros S.L. (Spain) (See Note 4.u)	—	40
Aços Villares S.A. (Brazil)	23	23
Empresa Siderúrgica del Peru S.A.A. – “Siderperu” (Peru) (See Note 4.s)	83	83
Siderúrgica Zuliana C.A. (Venezuela) (See Note 4.b)	100	—

* Gerdau Ameristeel holds an interest of 55% in PCS, and the Company holds an interest of 65% in Gerdau Ameristeel. Therefore, the Company’s indirect interest in PCS is 36% and PCS is being consolidated by Gerdau Ameristeel which in turn is consolidated by the Company.

** The company considers Corporación Sidenor a variable interest entity (“VIE”) as defined by FIN 46(R). See details on note 4.o.

The consolidated financial statements include all the companies in which the Company has a controlling financial interest through direct or indirect ownership of a majority voting interest. The consolidated financial statements include, in addition to the operational companies presented in the table above, all the other companies that meet the criteria for consolidation under US GAAP, which consist of holding companies which invest in the operating companies and carry out financing transactions.

All intercompany balances and transactions have been eliminated on consolidation.

3.2 Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates include, but are not limited to, the allowance for doubtful accounts, impairment of goodwill and of long-lived assets, computation of fair value of assets and liabilities of companies acquired and of derivative instruments, useful lives of long-lived assets, valuation allowances for income taxes, actuarial assumptions (utilized in the calculation of employee benefit obligations), contingencies and environmental liabilities. Actual results could differ from those estimates.

3.3 Cash and cash equivalents

Cash and cash equivalents are carried at cost plus accrued interest. Cash equivalents are considered to be all highly liquid temporary cash investments, mainly time deposits, with original maturity dates of three months or less.

3.4 Short-term investments

Trading securities are recorded at fair value with changes in fair value recognized in the consolidated statement of income. Securities for which the Company has positive intent and ability to hold to maturity are classified as held-to-maturity. Securities which are not classified as trading securities or held-to-maturity are classified as available for sale which are recorded at fair value with changes in fair value recognized directly in shareholders equity.

3.5 Trade accounts receivable

Accounts receivable are stated at estimated realizable values. Allowances are provided, when necessary, in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

3.6 Inventories

Inventories are valued at the lower of cost or replacement or realizable value. Cost is determined using the average cost method.

3.7 Property, plant and equipment

Property, plant and equipment are recorded at cost, including capitalized interest incurred during the construction phase of major new facilities. Interest capitalized on loans denominated in *reais* includes the effect of indexation of principal required by certain loan agreements. Interest capitalized on foreign currency borrowings excludes the effects of foreign exchange gains and losses.

Depreciation is computed under the straight-line method at rates which take into consideration the useful lives of the related assets: 10 to 30 years for buildings and improvements, 4 to 20 years for machinery and equipment, 10 to 20 years for furniture and fixtures, and 3 to 5 years for vehicles and computer equipment. Assets under construction are not depreciated until they are placed into service. Major renewals and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Any gain or loss on the disposal of property plant and equipment is recognized on disposal.

The Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset or group of such assets is considered impaired by the Company when the anticipated undiscounted cash flow from such asset(s) is separately identifiable and less than the carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using discounted anticipated cash flows. During 2007, no impairment losses were recorded.

3.8 Equity investments

Investments in entities where the Company owns 20% to 50% of the voting interest or where the Company has the ability to exercise significant influence are accounted for under the equity method. As of December 31, 2007 and 2006, the Company's equity investments are comprised of: (a) a 50.00% interest in each of Gallatin Steel Company, Bradley Steel Processors and MRM Guide Rail, 50% owned joint-ventures in the United States (b) a 50.00% interest in Armacero Industrial y Comercial Limitada (Chile), and (c) a 51.82% interest in Dona Francisca Energética S.A (Brazil) ("Dona Francisca"). As of December 31, 2007, the Company's equity investments also comprise a 49.00% interest in Multisteel Business Holdings Corp. (Dominican Republic),

In accordance with an agreement between the shareholders of Dona Francisca, the principal operational and financial decisions including the selection of members of the Board of Directors, requires the approval of at least 65% of voting shares. In accordance with EITF 96-16 "Investor's Accounting for a Investee When the Investor has a Majority of the Voting Interest but Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", because the minority interest shareholders have certain approval or veto rights, the results of Dona Francisca have not been consolidated, but included as an equity investment and accounted for using the equity method of accounting.

3.9 Investments at cost

Investments at cost consists of equity investments in entities where the Company owns less than 20% of the voting interest which do not have a readily determinable fair value, including tax incentives to be utilized in government approved projects, and does not have the ability to exercise significant influence. The investments are stated at cost and reduced by valuation allowances based on management estimates of realizable values.

3.10 Goodwill

Goodwill represents the cost of investments in excess of the fair value of net identifiable assets acquired and liabilities assumed.

The Company adopts SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". Under this standard, goodwill, including goodwill recognized for business combinations consummated before initial application of the standard, is no longer amortized but is tested for impairment at least annually, using a two-step approach that involves the identification of "reporting units" and the estimation of fair value.

During the years ended December 31, 2007 and 2006 goodwill was tested for impairment and in 2006 an impairment loss of $1,630 has been recognized, regarding the goodwill balance allocated to Margusa.

3.11 Pension and other post-retirement benefits

The Company records plan assets, obligations under employee benefit plans and the related costs under the following policies:

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health care costs. The discount rate used for determining the liability for future benefits is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations.

Pension assets are recorded at fair market value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The excess of any net actuarial gain or loss exceeding 10% of the greater of the benefit obligation and the fair value of plan assets is included as a component of the net actuarial gain or loss recognized in accumulated other comprehensive income and subject to subsequent amortization to net periodic pension cost in future periods over the average remaining service period of the active employees.

As of December 31, 2006 the Company adopted Statement on Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R),". Under SFAS 158 the Company recognized the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its balance sheet with an offsetting amount in accumulated other comprehensive income. As required by SFAS 158, its provisions of SFAS 158 were applied on a prospective basis as from December 31, 2006; therefore, prior periods presented have not been restated. At December 31, 2007 and 2006, the Company recorded $1.225 and $50,103, net of tax, in accumulated other comprehensive income related to the adoption of this statement, respectively.

3.12 Compensated absences

Compensated absences are accrued over the vesting period.

3.13 Stock based compensation plans

Gerdau Ameristeel Corp ("Gerdau Ameristeel") and its subsidiaries and Gerdau S.A. maintain stock based compensation plans. The Company accounts for the stock-based compensation plans as from January 1, 2006 under SFAS 123 – R ("SFAS 123(R)") "Shared-based payment". SFAS 123(R) addresses the accounting for employee stock options and eliminates the alternative use of the intrinsic value method of accounting that was provided in Statement 123 as originally issued. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (vesting period). The grant-date fair value of employee share options and similar instruments is estimated using option-pricing models adjusted to the unique characteristics of those instruments.

The Company applied the modified prospective application method to account for the implementation of SFAS 123(R), which consists on recognizing costs of services rendered as from January 1, 2006 according to the grant-date fair value of stock options instruments, but does not require to restate previous year financial statements, and instead requires pro forma disclosures of net income and earnings per share for the effects on compensation had the grant-date fair value been adopted in prior periods. Under this transition method, compensation cost for stock options plans as from January 1, 2006, include the applicable amount of: (a) compensation cost for all share based instruments granted prior to, but not yet vested, as of January 1, 2006 (based on the grant-date fair value in accordance with the provisions of SFAS 123), and (b) compensation cost for all share based instruments granted after January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123(R)).

Through December 31, 2005, the Company applied the intrinsic value method established by Accounting Principles Board ("APB") Opinion Nº 25, "Accounting for Stock Issued to Employees" to account compensation for stock based compensation.

Under SFAS 123(R), the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard, which includes a binomial model and the Black & Scholes model. At the present time, the Company uses the Black & Scholes model. SFAS 123(R) also requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur.

The following table illustrates the effects on net income and on earnings per share if the grant-date fair value method had been applied (in thousands, except per share data).

	2005
Net income as reported	1,117,521
Reversal of stock-based compensation cost included in the determination of net income as reported, net of tax	173
Stock-based compensation cost following the fair value method, net of tax	(1,202)
Pro-forma net income	1,116,492
Earnings per share – basic	
Common - As reported and pro-forma	1.68
Preferred - As reported and pro-forma	1.68
Earnings per share – diluted	
Common	
As reported	1.67
Pro-forma	1.67
Preferred	
As reported	1.67
Pro-forma	1.67

The Company and its subsidiary Gerdau Ameristeel have several stock based compensation plans. Information about those plans is presented in Note 25.

3.14 Revenue recognition

Revenues from sales of products are recognized upon delivery to customers, when title is transferred and the client has assumed the risk and rewards of ownership in accordance with the contractual terms.

The Company recognizes its revenues on construction contracts of its PCS operation using the percentage-of-completion method of accounting, measured by the percent of contracts costs incurred to-date to estimated total contract costs. This method is used because management considers total cost to be the best available measure of completion of construction contracts in progress. Provision for estimated losses on construction contracts in progress is made in their entirety in the period in which such losses are determined without reference to the percentage complete. Changes in job performance, job conditions, and estimated profitability may result in a revision to revenues and costs, and are recognized in the period in which the revisions are determined. Claims for additional revenues are not recognized until the period in which such claims are allowed.

The asset “Cost and estimated earnings in excess of billings of uncompleted contracts” represents revenues recognized in advance of amounts billed. The liability “Billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in advance of revenues recognized. Both assets and liabilities are presented under “Other current assets” or “Other current liabilities”.

Shipping and handling costs are recognized under cost of sales.

3.15 Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes”, which requires the application of the liability method of accounting for income taxes. Under this method, a company is required to recognize a deferred tax asset or liability for all temporary differences. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of changes in tax rates is recognized in income for the period that includes the enactment date.

Deferred tax assets are reduced through the establishment of a valuation allowance, as appropriate, if, based on the weight of available evidence, it is more likely than not that the deferred tax asset will not be realized.

3.16 Earnings per share

The Company calculates earnings per share in accordance with SFAS No. 128, “Earnings Per Share”.

Basic EPS excludes dilution, while diluted EPS reflects the potential dilution resulting from options granted during those years to acquire shares of Gerdau S.A and, during the year ended December 31, 2007 and 2006, the potential dilution from the potential settlement in shares of Gerdau S.A. of the commitment to acquire additional shares of Diaco (Note 4.v) and for the year ended December 31, 2006 the options granted to minority shareholders of Sipar Aceros to sell additional shares to the Company (Note 4.x). The Company uses the “treasury stock” method to compute the dilutive effect of those instruments.

EPS data for 2005 is calculated giving retroactive effect to the stock bonus approved on March 31, 2006 (Note 17.1). EPS is presented on a per share basis (Note 19).

3.17 Dividends and interest on equity

The Company's By-Laws require it to pay to its Common and Preferred shareholders annual dividends of at least 30% of net income calculated in accordance with the provisions of the Brazilian Corporate Law. Approval of the payment of such dividends is granted at the Annual General Meeting, which must be held on or before April 30 of each year. Dividends are payable in Brazilian *reais* and reflected in the financial statements once declared by the Annual General Meeting.

Brazilian corporations are permitted to distribute interest on equity, similar to a dividend distribution, which is deductible for income tax purposes. The amount payable may not exceed 50% of the greater of net income for the year or retained earnings, as measured under Brazilian Corporate Law. It also may not exceed the product of the *Taxa de Juros de Longo Prazo* ("TJLP") (long-term interest rate) and the balance of shareholders' equity, as measured under Brazilian Corporate Law.

Payment of interest on equity is beneficial to the Company when compared to making a dividend payment, since it recognizes a tax deductible expense on its income tax return for such amount. The related tax benefit is recorded in the consolidated statement of income. Income tax is withheld from the stockholders with respect to interest on equity at the rate of 15%.

3.18 Environmental and remediation costs

Expenditures relating to ongoing compliance with environmental regulations, designed to minimize the environmental impact of the Company's operations, are capitalized or charged against earnings, as appropriate. The Company provides for potential environmental liabilities based on the best estimate of potential clean-up and remediation estimates for known environmental sites. Management believes that, at present, each of its facilities is in substantial compliance with the applicable environmental regulations.

3.19 Advertising costs

Advertising costs included in selling and marketing expenses were $48,297, $28,736 and $25,661 for the years ended December 31, 2007, 2006, and 2005 respectively. No advertising costs have been deferred.

3.20 Treasury stock

Common and preferred shares reacquired are recorded under "Treasury stock" within shareholders' equity at cost. Sales of treasury stock are recorded at the average cost of the shares in treasury held at such date. The difference between the sale price and the average cost is recorded as a reduction or increase in additional paid-in capital.

3.21 Derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting are recognized on the balance sheet at fair value with unrealized gains and losses recognized in the statement of income.

To qualify as a hedge, the derivative must be (i) designated as a hedge of a specific financial asset or liability at the inception of the contract, (ii) effective at reducing the risk associated with the exposure to be hedged, and (iii) highly correlated with respect to changes either in its fair value in relation to the fair value of the item being hedged or with respect to changes in the cash flows, both at inception and over the life of the contract.

(in thousands of U.S. Dollars, unless otherwise stated)

4 Acquisitions

(a) Grupo Feld S.A. de C. V. (Gerdau GTL México, S.A., de C.V.)

On March 28, 2007, the Company acquired 100% of capital stock of Grupo Feld S.A. de C.V., a Mexican Group which owns three companies: Siderurgica Tultitlán S.A. de C.V. ("Sidertul"), a long steel mini-mill located on Ciudad de México, which produces 350,000 tones of crude steel and 330,000 tones of rolled steel; Ferrotultitlán S.A. de C.V. ("Ferrotul"), which is the trading company of the group, and basically trades steel products produced by Sidertul, and also Arrendadora Valle de Mexico S.A. de C.V. ("Arrendadora"), which is a real state company which owns the land and buildings were Sidertul is located. The financial statements of the Company include the results of this acquisition from the date of acquisition.

Total price paid for this acquisition was $258,840. As allowed under SFAS 141, the Company has up to one year from the acquisition date to adjust the valuations of goodwill and other intangible assets. The evaluation is being performed and the final result will be recorded in accordance with the accounting rule referred above. The Company has made a preliminary estimation of fair value of assets acquired and liabilities assumed, and those assets and liabilities are described below:

Net assets (liabilities) acquired	
Current assets	43,648
Property, plant and equipment	108,522
Other non-current assets	3,862
Goodwill	124,977
Current liabilities	(20,783)
Non-current liabilities	(1,386)
	258,840
Purchase price	258,840

(b) Siderúrgica Zuliana C.A.

On June 18, 2007, the Company acquired 100% of capital stock of Siderúrgica Zuliana C.A., a Venezuelan company which operates one steel mill in the city of Ciudad Ojeda, Venezuela, with an annual production capacity of 300,000 tones of crude steel and 200,000 tones of rolled steel. The financial statements of the Company include the results of this acquisition from the date of acquisition.

Total consideration for this acquisition was $92,499, which has been paid during the second and third quarter of the year. As allowed under SFAS 141, the Company has up to one year from the acquisition date to adjust the valuations of goodwill and other intangible assets. The valuation is being performed and the final result will be recorded in accordance with the accounting rule referred above. The Company has made a preliminary estimation of fair value of assets acquired and liabilities assumed, and those assets and liabilities are described below:

Net assets (liabilities) acquired	
Current assets	12,296
Property, plant and equipment	27,960
Other non-current assets	1,010
Goodwill	58,293
Current liabilities	(4,710)
Non-current liabilities	(2,350)
	92,499
Purchase price	92,499

(c) Multisteel Business Holdings Corp.

On May 25, 2007, the Company acquired a 30.45% interest on Multisteel Business Holdings Corp., which is a holding company of Indústrias Nacionales, C. por A. ("INCA"), a company located in Santo Domingo, Dominican Republic. INCA is a rolling mill steel company, with annual capacity of around 350,000 tonnes of rolled steel. This partnership will allow the Company to access the Caribbean market.

Total consideration paid for this interest was $42,900, and the Company has preliminary computed a goodwill of $19,700, which was not yet allocated. This investment is recorded under the equity method. As per the purchase agreement, the Company agrees to pay contingent consideration based on futures earnings of the acquired investment. Such earn-out clause provides for additional payment if a certain level of EBITDA (defined in the contract) is reached on the following 5 years. Such contingent consideration will be included in the goodwill, when it is considered as a liability of the Company.

On July 2, 2007, the Company has increased its equity interest on Multisteel Business Holdings Corp from 30.45% to 49%, through the capitalization of intercompany loans totaling $72,000. This investment is recorded under the equity method, and the Company has computed a preliminary goodwill of $23,105.

(d) Valley Places, Inc,

On June 17, 2007, Pacific Coast Steel ("PCS"), a 55% owned joint venture of the Company completed the acquisition of the assets of Valley Placers, Inc. ("VPI"), a reinforcing steel contractor in Las Vegas, Nevada, for approximately $8,900. In addition to contracting activities, VPI operates a steel fabrication facility and retail construction supply business. VPI currently employs more than 110 field ironworkers and specializes in smaller commercial, retail and public works projects.

(e) SJK Steel Co.

On June 22, 2007 the Company and Kalyani Group, from India, have signed a joint venture agreement for an investment in Tadipatri, India. The joint venture involves a stake of 45% of ownership of SJK Steel Co., a steel making company with two LD converters, one continuous cast mill and also a facility for pig iron production. The agreement provides for joint control, and investments are estimated in $71,000, depending on several preceding conditions, which were not met at December 31, 2007. On December 11, 2007 the Company made an advance payment for the acquisition of this investment in the amount of $20 million.

(f) D&R Steel

On August 27, 2007, the subsidiary Gerdau Ameristeel completed the acquisition of D&R Steel, LLC ("D&R"), a reinforcing steel contractor in Glendale, Arizona for $4,900. As a result of this acquisition, the Company recorded total assets of $3,200, goodwill and intangibles of $3,000 and liabilities of $1,300.

(g) Chaparral

On September 14, 2007, the subsidiary Gerdau Ameristeel completed its acquisition of Chaparral Steel Company ("Chaparral"), broadening the subsidiary's product portfolio and giving it a wide range of structural steel products. Chaparral is a leading producer of structural steel products in North America and also a major producer of steel bar products. It operates two mini-mills, one located in Midlothian, Texas, and other located in Petersburg, Virginia. The purchase price for the shares of Chaparral was $4,234,688 in cash, plus the assumption of certain liabilities of the acquired company.

(in thousands of U.S. Dollars, unless otherwise stated)

The consolidated financial statements of the Company include the results of these acquisitions from the date of acquisition.

The following table summarizes the fair value of assets acquired and liabilities assumed for Chaparral at the date of the acquisition September 14, 2007:

Net assets (liabilities) acquired	
Current assets	1,059,573
Property, plant and equipment	703,811
Intangible assets	605,671
Other long-term assets	11,519
Current liabilities	(503,796)
Long-term liabilities	(415,299)
Net fair market value	1,461,479
Goodwill	2,773,209
Total consideration allocated	4,234,688

The preliminary purchase price allocation to the identifiable intangible assets is as follows:

		Remaining Useful life
Customer relationships	561,000	15 years
Patented technology	29,000	5 years
Internally developed software	1,000	2 years
Order backlog	14,671	1.5 months
	605,671	

The goodwill has been allocated to North America segment (see note 12). The purchased intangibles and goodwill are not deductible for tax purposes, however purchase accounting requires the establishment of deferred tax liabilities related to intangible assets that will be recognized as a tax benefit in future periods as the assets are amortized.

As allowed under SFAS 141, the Company has up to one year from the acquisition data to finally determine the valuations of goodwill and other intangible assets.

The following unaudited pro forma consolidated results of operations assume the acquisition of Chaparral was completed at the beginning of each of the periods shown below. Pro forma data may not be indicative of the results that would have been obtained had the acquisition actually occurred at the beginning of the periods presented, or of results which may occur in the future.

(in thousands of U.S. Dollars, unless otherwise stated)

	Year Ended	
	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)
Net Sales	17,197,083	13,435,264
Net Income	1,679,953	1,535,277
Earnings per Common Share – Basic	2.54	2.31
Earnings per Common Share – Diluted	2.51	2.29
Earnings per Preferred Share – Basic	2.54	2.31
Earnings per Preferred Share – Diluted	2.51	2.29

The unaudited pro forma information presented above reflects the results of operations for the years ended December 31, 2007 and 2006 as though the acquisition had been completed at the beginning of each period. The fair value adjustment to inventory ($22 million net of tax) has been recorded as a reduction of net income in each period.

The pro forma information for the year ended December 31, 2007 has been prepared by combining (i) Company's consolidated statement of earnings for the year ended December 31, 2007, which includes Chaparral from September 14, 2007 the date of acquisition and (ii) Chaparral's consolidated statement of operations for the nine months ended August 31, 2007, which was prepared by combining Chaparral's consolidated statement of operations for the three months ended February 28, 2007, the three months ended May 31, 2007 and the three months ended August 31, 2007. The 2006 comparative information was prepared combining Company's consolidated statement of earnings for the year ended December 31, 2006 and (ii) Chaparral's consolidated statement of operations for the twelve months ended November 30, 2006, which was prepared by combining Chaparral's consolidated statement of operations for the three months ended February 28, 2006, the three months ended May 31, 2006, the three months ended August 31, 2007 and three months ended November 30, 2006.

(h) Enco Materials Inc.

On October 1, 2007, the subsidiary Gerdau Ameristeel acquired Enco Materials Inc. ("Enco"), a leader in the commercial materials market, including fabricated rebar, construction products, concrete forming and shoring material, as well as fabricated structural steel and architectural products for $46.6 million in cash, plus the assumption of certain liabilities of the acquired Company. As a result of this acquisition, the Company recorded total assets of $30.6 million, goodwill of $26.2 million, intangibles of $2.5 million and liabilities of $12.7 million. Headquartered in Nashville, Tennessee, Enco has eight facilities located in Arkansas, Tennessee, and Georgia.

(i) Corsa Controladora, S.A. de C.V.

On October 19, 2007, the Company signed a letter of intention to purchase an interest of 49% in the capital of the holding company Corsa Controladora, S.A. de C.V., with headquarters in Mexico City, Mexico. The holding owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors.

Aceros Corsa, located in the city of Tlalnepantla, in the metropolitan area of Mexico City, is a mini-mill producer of long steels (small merchant bars) with an installed capacity of 150,000 thousand tones of crude steel and 300,000 thousand tones of rolled products a year.

This transaction was estimated at $110.7 million, subject to compliance with certain prior requirements. As such requirements were not fulfilled as of December 31, 2007, no payment was made through that date.

(j) Trefilados de Urbina, S.A. – Trefusa

On October 19, 2007, the subsidiary Sidenor Industrial acquired Trefilados de Urbina, S.A. – Trefusa for €18.1 million ($25.8 million as of the acquisition date). Trefusa is a wire drawing mill working with special long steels in Vitória, Spain. As a result of the acquisition, the Company recognized an initial goodwill of €7.7 million ($11.3 million as of the acquisition date).

(k) Acquisition of additional interest in Sipar Aceros

On October 23, 2007, the Company acquired an additional interest of 8.97% in the capital of Sipar Aceros for $11,064. This acquisition was under the terms of an agreement signed on September 15, 2005 which stated that some of the shareholders had options to sell shares of Sipar Aceros to the Company. As result of the acquisition, the Company recognized an additional goodwill of $3,417. See also Note 4.w.

(l) Quanex Corporation

On November 19, 2007, the Company signed a final agreement to acquire Quanex Corporation, which, through its steel business MacSteel, is the second largest producer of special long steels (Special Bar Quality – SBQ) in the United States and operates three mini mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The company also operates six downstream units Spread across Michigan, Ohio, Indiana and Wisconsin. MacSteel has an installed capacity of 1.2 million tonnes of steel and 1.1 million tonnes of rolled products a year.

The agreement does not include Quanex's Building Products business, which is a non-siderurgy operation. Quanex announced the spin-off of this business to its shareholders before the acquisition offer was actually completed.

This transaction was estimated at $1.5 billion, subject to compliance with certain prior requirements. As such requirements were not fulfilled as of December 31, 2007, no payment was made through that date.

(m) Acquisition of additional interest in Gerdau Aços Longos S.A., Gerdau Açominas S.A., Gerdau Aços Especiais S.A., and Gerdau Comercial de Aços S.A.

On December 14, 2007 the Company completed the acquisition of shares owned by the members of "Clube dos Empregados da Açominas" (Açominas's Employees Club) in the companies Gerdau Aços Longos S.A., Gerdau Açominas S.A., Gerdau Aços Especiais S.A., and Gerdau Comercial de Aços S.A., which were equivalent to 2.89% of each company's capital. The total of acquisition is R$ 653,825 ($364,065) payable in 36 equal installments, adjusted by 102% of the variation of the Interbank Deposit Certificate – CDI and booked as short-term debt and long-term debt. As a result of this operation, the Company recorded goodwill of R$399,432 ($225,502) on December 31, 2007.

(n) Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda.

On December 31, 2007, the Company signed a final agreement for the exchange of shares whereby the Company acquired the ownership of Aplema, in exchange for its interest in Margusa – Maranhão Gusa S.A. The exchange was completed with equivalence of value between Aplema's and Margusa's shares. As a result of this operation, the Company recorded goodwill of R$ 53,965 ($30,467).

(o) Corporación Sidenor S.A.

On January 10, 2006 the Company concluded the acquisition of 40% of Corporación Sidenor S.A. ("Sidenor"), a Spanish steel producer with operations in Spain and Brazil. The Santander Group, a Spanish financial conglomerate, and an entity owned by executives of Sidenor contemporaneously acquired 40% and 20% of Sidenor, respectively. Purchase price for the acquisition of 100% of Sidenor consists of a fixed price of €443,820 plus a variable contingent price which is payable only by the Company. The fixed price paid by the Company on January 10, 2006 for its 40% interest in Sidenor amounted to €165,828 ($200,082). The amounts paid under the variable contingent price will be accounted for as additional purchase price consideration once the contingencies are resolved. Contingent price depends on several factors including actual use of existing tax credits, potential gains on litigation initiated by a subsidiary of Corporación Sidenor and final destination of a plot of land currently occupied by Corporación Sidenor. Santander Group holds a put option to sell their interest in Sidenor to the Company, after 5 years from the purchase, at a fixed price plus accrued interests computed using a fixed interest rate. The Santander right to sell to third parties in case of unsuccessful result of the put exercise means that if the Santander Group sells its interest at a price higher or lower than the agreed amount the difference will be paid by Santander Group to the Company or by the Company to Santander Group, respectively. The guarantee may be exercised by the Santander Group at any time after 6 years. Also, the Company has agreed to guarantee to the Santander Group the payment of an agreed amount (equal to the fixed price under the put option referred to above plus accrued interest computed using the same fixed interest rate) after 6 years from the purchase in the event that Santander Group has not sold the shares acquired up to such date.At any time during the put effectiveness, Sidenor will be able to require, upon a certified notice, that Santander exercise the put in advance.

As of December 31, 2006, certain tax credits in the Spanish operation of Sidenor have been used. Part of the contingent variable price was dependent on the use of such tax credits and the Company is contractually obligated to pay to the former shareholders of Sidenor an amount equivalent to 70% of the tax credits used. As a result of this, the Company will make an additional payment of €24,605 ($29,817), which was recorded as an additional purchase price consideration. During year ended December 31, 2006, the Company has paid €3,098 ($3,929) regarding the use of those tax credits. During year ended December 31, 2007 no payments were made regarding the use of those tax credits.

The Company has concluded that Corporación Sidenor is a variable interest entity (“VIE”) as defined by FIN 46 (R) “Consolidation of Variable Interest Entities” and that the Company is the primary beneficiary. As a result, as from the acquisition date, the Company has consolidated Corporación Sidenor and its subsidiaries which include Aços Villares S.A., a Brazilian specialty steel producer on which Corporación Sidenor has a 58% voting interest.

The Company has estimated the fair value of assets and liabilities of Corporación Sidenor and its subsidiaries. According to the estimated fair value amounts of assets and liabilities of Corporación Sidenor and its subsidiaries, an excess of fair value of assets acquired and liabilities assumed in relation to the purchase price was identified. Considering that contingent consideration exists which may result in additional purchase price part of the originally determined amount of excess of fair value of assets acquired and liabilities assumed in relation to purchase price has been recorded under “Deferred credit related to acquisition of Corporación Sidenor”. The amount then recorded is the lesser of estimated maximum contingent consideration and the excess of fair value over purchase price originally determined. The maximum contingent consideration has been estimated by management based on assumptions and information available as of the date of acquisition. The amount recorded as of December 31, 2006 related to the estimated maximum contingent consideration is $106,899. The remaining excess fair value of assets acquired and liabilities assumed in relation to the purchase price was allocated to reduce the value of long-lived assets acquired. During year ended December 31, 2007, the Company reversed €19,867 ($29,259) of contingent consideration due to no longer use of part of tax credits. As a result of that the Company adjusted the fair value of non-current assets.

As a result, the Company has recognized no goodwill on this acquisition. During the year ended December 31, 2006 the Company has finalized the appraisal of property and equipment acquired for Corporación Sidenor and Forjanor S.L. and also for Aços Villares and considers the purchase price allocation to be final, except for the fact that events which might require the payment of contingent variable price have not yet occurred until December 31, 2006. The fair value of assets and liabilities acquired at the date of acquisition are summarized below:

(in thousands of U.S. Dollars, unless otherwise stated)

	Final allocation recorded as of December 31, 2006	Final allocation after reduction of contingent consideration
Purchase price consideration	224,234	224,234
Deferred credit related to the acquisition	106,899	77,640
	331,133	301,874
Current liabilities	444,618	444,618
Non-current liabilities	701,854	691,613
Minority interest (corresponding to the 60% acquired by other parties including Santander Group)	503,582	503,582
Current assets	(670,025)	(670,025)
Non-current assets	(1,311,162)	(1,271,662)
Net assets at estimated fair value	(331,133)	(301,874)

The Company's obligation to purchase from Santander Group its 40% interest in Corporación Sidenor is recorded in Minority Interest. As of December 31, 2007 and 2006, such obligation amounts to $266,176 and $246,005, respectively. See Note 21.

(p) Fargo Iron and Metal Company

In February 2006, the Company acquired certain assets and assumed certain liabilities of Fargo Iron and Metal Company, a scrap processor, for approximately $5,500.

(q) Callaway Building Products, Inc.

In March 2006, the Company acquired certain assets and assumed certain liabilities of Callaway Building Products, Inc., a rebar fabricator, for approximately $2,200.

(r) Sheffield Steel Corporation

On June 12, 2006, Gerdau Ameristeel completed the acquisition of all of the outstanding shares of Sheffield Steel Corporation ("Sheffield"). The acquisition includes a melt shop, rolling mill, downstream facility and short-line railway in Sand Springs, Oklahoma, a rolling mill in Joliet, Illinois and two downstream operations in Kansas City, Missouri. Sheffield's products are generally sold to steel service centers, steel fabricators or directly to original equipment manufacturers ("OEMs"), for use in a variety of industries. With this acquisition, Gerdau Ameristeel continues its expansion strategy with an increased geographic presence towards the western portion of the United States.

The purchase price for the shares of Sheffield was $103,314 in cash, plus the assumption of certain liabilities of the acquired company.

The following table summarizes the fair value of assets acquired and liabilities assumed for Sheffield Steel at the date of the acquisition:

Net assets (liabilities) acquired	
Current assets	140,266
Property, plant and equipment	84,169
Other non-current assets	925
Goodwill	63,681
Current liabilities	(40,608)
Non-current liabilities	(145,119)
	103,314
Purchase price	107,145
Plus transaction costs	1,224
Working capital adjustment received in July 2006	(5,055)
Total purchase price consideration	103,314

The $63,681 of goodwill was assigned to the reporting segment North America. None of the goodwill is deductible for tax purposes.

(s) Empresa Siderurgica del Peru S.A.A. – Siderperu

On June 28, 2006, the Company won the public bid for 50% plus 1 share of the common voting stock of Empresa Siderurgica del Peru S.A.A. – Siderperu ("Siderperu"), located in Chimbote – Peru. Total price paid for this bid was $60,698, which was paid on cash on July 3, 2006 when the shares acquired were transferred to the Company in the record of shareholders of Siderperu. On August 2, 2006, the Company acquired additional shares of Siderperu shares, representing 0.43% of voting capital, for an amount of $528.

During the process of qualification for the public bid, the Company has also acquired credits against the former owner of Siderperu, in the amount of $18,000, which were guaranteed by 40.24% of Siderperu shares. On November 15, 2006, a subsidiary of the Company, which was the holder of the credits, executed its guarantee, and in a public auction, the Company acquired 32.84% of the shares of Siderperú for $16,201. Therefore, the Company owns as of December 31, 2006, 83.27% of the shares of Siderperu.

According to the public auction regulation, the Company has several additional obligations, which were precedent conditions to participate in the public auction. These obligations include, among others, to maintain all current employees of Siderperu for a period of two years; maintain the blast furnace operating, with the current production level, at least; to present a plan for environmental adequacy within three months from the date of acquisition; to commit to invest a total amount of $100,000 in five years, with a minimum amount of $20,000 each year and to continue to hold at least 34% of past due credits of Siderperu existing on the date of the auction. As of December 31, 2006, the Company holds past due credits of approximately $64,000 (which represent more than 34% of the past due credits at the date of the auction) which were acquired from different creditors of Siderperu before the auction date.

Siderperu is a long and flat steel mill, with annual sales of 360,000 tons of finished products. Siderperu operates a blast furnace, a direct reduction unit, a melt shop with two electric arc furnaces and three rolling mills. Approximately 20% of total sales are of flat steel, and the remaining 80% of sales are of long steel.

As of December 31, 2006 the Company made a preliminary computation of the estimated fair value of assets and liabilities of Siderperu. According to the preliminary allocation, total fair value of assets acquired and liabilities assumed approximates the total purchase price consideration paid; therefore, no goodwill was initially recognized in this acquisition. During the second quarter of 2007, the Company has finalized its process of purchase price allocation for the acquisition of Siderperu. According to the final allocation of fair value of assets acquired and liabilities assumed, the Company has determined the fair value of consideration given was lower than the fair value of assets acquired and liabilities assumed; therefore, the Company identified an excess of fair value over purchase price consideration ("negative goodwill") in this acquisition. Such negative goodwill was allocated to the long term assets acquired, reducing the amount of fair value initially computed. The following table summarizes both the preliminary computation of estimated fair value of assets acquired and liabilities recorded as of December 31, 2006 and the final computation including final allocation of negative goodwill:

(in thousands of U.S. Dollars, unless otherwise stated)

	Preliminary allocation recorded as of December 31, 2006	Final allocation including allocation of negative goodwill
Net assets (liabilities) acquired		
Current assets	118,392	116,533
Property, plant and equipment	143,013	138,823
Other non-current assets	290	290
Current liabilities	(137,487)	(137,487)
Non-current liabilities	(24,638)	(18,589)
Minority interest	(12,651)	(12,651)
	86,919	86,919
Purchase price	77,427	77,427
Plus transaction costs	9,492	9,492
Total purchase price consideration	86,919	86,919

(t) Pacific Coast Steel, Inc. and Bay Area Reinforcing

On November 1, 2006, the Company completed the acquisition of 55% of the outstanding shares of the newly formed joint venture PCS. This joint venture was formed by Pacific Coast Steel, Inc. (“PCS, Inc.”) and Bay Area Reinforcing (“BAR”). The acquisition includes four rebar fabrication facilities in California, including San Diego, San Bernardino, Fairfield, and Napa. With this acquisition, the Company continues its expansion strategy with an increased geographic presence towards the western portion of the United States.

The purchase price for the shares of PCS was $104,500 in cash, plus the assumption of certain liabilities of the acquired company. The purchase contract contains a put and call option whereby, on the fifth anniversary date, the company may purchase the remaining 45% interest in the partnership at an agreed upon valuation method.

The following table summarizes the fair value of assets acquired and liabilities assumed for PCS at the date of the acquisition, November 1, 2006:

Net assets (liabilities) acquired	
Current assets	50,956
Property, plant and equipment	4,812
Other non-current assets	493
Goodwill	66,202
Intangibles assets	8,360
Current liabilities	(25,868)
	104,955
Purchase price	104,500
Plus transaction costs	455
Total purchase price consideration	104,955

The $66,202 of goodwill was assigned to the reporting segment North America. The company’s entire portion of its interest in the goodwill is deductible for tax purposes.

Other intangible assets consist of the following:

(in thousands of U.S. Dollars, unless otherwise stated)

	Fair Value	Useful lives (in years)
Backlog	1,155	2.5
Trade name	3,850	5.0
Customers	2,805	13.5
Non-compete agreements	550	5.0
	8,360	

For the year ended December 31, 2007 and 2006, the Company recorded in amortization of intangibles $1,378 and $500 of amortization expense related to the purchased intangible assets, respectively.

(u) GSB Aceros S.L.

On December 28, 2006, Corporación Sidenor has consummated the acquisition of all outstanding shares of GSB Aceros through an agreement with CIE Automotive, S.A. (CIE), after obtaining the approval of Spanish Free Trade Authorities.

GSB Aceros is a specialty steel mill, with annual production of 200,000 tons located on Guipúzcoa, Spain. GSB Aceros is a specialty steel producer mainly focused on automotive market, through direct and indirect sales.

Total price paid for this acquisition was €111,500 ($146,788).

In December 2007, the Company concluded the appraisal of the fair value of GSB Aceros S.L.'s assets and liabilities and reversed the goodwill of $60,577 initially recognized when the acquisition was done. According to the final estimation of fair value acquired, the Company has determined the fair value of consideration given was lower than the fair value of assets acquired and liabilities assumed; therefore, the Company identified a negative goodwill in this acquisition. Such negative goodwill was allocated to the long term assets acquired, reducing the amount of fair value initially computed.

The table below shows the preliminary allocation recorded as of December 31, 2006 and the final allocation recorded:

	Preliminary allocation recorded as of December 31, 2006	Final allocation
Net assets (liabilities) acquired		
Current assets	141,229	143,345
Property, plant and equipment	86,573	168,592
Other non-current assets	16,290	16,290
Goodwill	60,577	—
Current liabilities	(115,917)	(115,917)
Non-current liabilities	(41,964)	(65,522)
	146,788	146,788
Purchase price consideration, at fair value	146,788	146,788

In 2007, the subsidiary GSB Aceros S.L. was merged by Sidenor Industrial S.L. which is a subsidiary of Corporación Sidenor S.A..

(in thousands of U.S. Dollars, unless otherwise stated)

(v) Diaco and Sidelpa

On December 23, 2004, the Company reached an agreement with the Mayaguez Group and Latin American Enterprise Steel Holding (“LAESH”), majority shareholders of Diaco and Sidelpa to buy shares owned by those investors in Diaco and Sidelpa. Diaco is the largest producer of steel and rebar in Colombia, and Sidelpa is the only producer of specialty steel in that country.

Closing of the transactions was subject to several conditions precedent. Upon entering into the agreement, the Company made a deposit of $68,500 in favor of certain trusts created for this transaction. Gerdau also has committed to acquire additional shares of Diaco in a period no longer than eight years.

Diaco

During September 2005 the conditions precedent for the Diaco acquisition were met, including the execution by Diaco of a public offer in the Colombian market to acquire shares owned by minority shareholders and the delisting of Diaco from the stock exchange in Colombia. On September 30, 2005, the Company concluded all steps required to obtain a 57.11% voting and total interest in Diaco, obtaining a controlling interest. As a result, Diaco shares acquired by the Company through Cerney Holding Limited, a wholly-owned subsidiary, were transferred from a trust to the Company, and the amount of $49,205 was transferred from such trust to the sellers while an additional amount of $6,762 was paid in cash by the Company.

This transaction was accounted following the purchase method. No goodwill resulted from this acquisition as result of the purchase price allocation.

The table below summarizes the fair value of assets and liabilities acquired:

Net assets (liabilities) acquired	
Current assets	81,522
Non-current assets	99,677
Current liabilities	(53,210)
Non-current liabilities	(29,993)
	97,996
% of interest acquired	57.11%
Purchase price consideration, at fair value	55,966

As result of the conditions precedent being met, Gerdau is also obligated to purchase an additional 40.27% interest in Diaco in 2013. Gerdau has the option to anticipate such purchase by acquiring 50% of the additional interest in March 2008 and the other 50% of the additional interest in March 2009. Settlement of the acquisition of the additional interest can be made in cash or in shares of Gerdau at the option of the sellers. The terms of the agreement establishes a formula to determine the purchase price which is based on a minimum amount plus interest over the period from December 2004 to the date of the acquisition, and an additional price based on changes in net equity of Diaco. The Company has recorded this forward commitment to purchase additional shares at its estimated fair value which at December 31, 2007 and 2006 amounts to $85,758 and $62,164, respectively and is presented within “Other non-current assets”. Changes in fair value have been recognized in income in “Other operating income (expenses), net”. The balance of the advance deposit originally made in December 2004, amounting to $14,895 as of December 31, 2006, is expected to be used to partially pay for the acquisition of this additional interest.

Sidelpa

On November 19, 2005, all the conditions precedent related to the acquisition of Sidelpa were met and Cerney Holding Limited obtained a 97.01% interest in Sidelpa, obtaining its control. As a result of this transaction, an amount of $4,400 was transferred from a trust to the former owners of Sidelpa, and $6,224 was paid in cash.

(in thousands of U.S. Dollars, unless otherwise stated)

This transaction was accounted following the purchase method. No goodwill resulted from this transaction as a result of the purchase price allocation.

The table below summarizes the fair value of assets and liabilities acquired:

Net assets (liabilities) acquired	
Current assets	21,977
Non-current assets	15,324
Current liabilities	(8,660)
Non-current liabilities	(17,690)
	10,951
% of interest acquired	97.01%
Purchase price consideration, at fair value	10,624

(w) Sipar Aceros

On September 15, 2005, the Company entered into an agreement to acquire an additional interest of 35.98% of Sipar Aceros, a rolling steel mill located in Santa Fé, Argentina, on which the Company already had a 38.46% interest. The company paid $16,688 in cash on September 15, 2005 and is required to pay an additional amount of $23,947 during the next three years without interest on those additional payments. Total consideration for the purchase of such interest, considering the financed portion of the purchase price at fair value, amounts to $37,340.

As a result of this acquisition, the Company obtained a controlling interest of 74.44%, and therefore Sipar Aceros has been consolidated as from the date of this additional acquisition. Previous to this date, this investment was accounted for following the equity method.

This transaction was accounted under the purchase method, and an allocation of fair value of assets and liabilities was performed which resulted in the recognition of goodwill of $16,721. Goodwill has been fully allocated to the reporting unit “Sipar Aceros”, a component of the segment “South America (except Brazil)”.

The following table summarizes the fair value of assets and liabilities acquired in this transaction and the resulting goodwill:

Net assets (liabilities) acquired	
Current assets	62,451
Non-current assets	50,262
Current liabilities	(31,359)
Non-current liabilities	(16,008)
	65,310
% of interest acquired	35.98%
Purchase price consideration, at fair value	37,340
Put options granted to minority shareholders at the time of acquisition	2,881
Determination of goodwill	16,721

Under the terms of the agreements, some of the selling shareholders have options to sell additional shares of Gerdau Sipar Inversiones S.A. (parent company of Sipar Aceros) to the Company, at a fixed amount, until September 2007. Initial fair value of those put options amounting to $2,881 was considered in the purchase price consideration, and subsequent changes in their fair value are recorded in income. On December 31, 2006, the fair value of the put options amount to $1,512 and is recorded on “Other non-current liabilities”, and has generated a gain of $4,305 during 2006, recorded in “Other operating (expenses) income, net”.

5 Short-term investments

Trading

Trading securities mainly includes Bank Deposit Certificates and Fixed-income investments, which are recorded at fair value. All income generated from these investments was recorded as financial income. At December 31, 2007 and 2006 the Company held $1,601,594 and $2,221,422 of investments in these securities, respectively.

Available for Sale

At December 31, 2007 and 2006 the Company held $156,029 and $123,430 of investments in these securities, respectively.

North America

From time to time, Gerdau Ameristeel invests excess cash in short-term investments, classified of available-for-sales, that are comprised of investment grade variable rate debt obligations, which are asset-backed. During 2006, Gerdau Ameristeel's investments in these securities were recorded at cost, which approximated fair value due to their variable interest rates, which typically reset every 28 days. Despite the long-term nature of the securities' stated contractual maturities, Gerdau Ameristeel historically had the ability to quickly liquidate these securities. During 2007, auctions for certain auction rate securities failed auction because sell orders exceeded buy orders. As a result of these failed auctions or future failed auctions, Gerdau Ameristeel may not be able to liquidate these securities until a future auction is successful, the issuer redeems the outstanding securities or the securities mature. Although it is Gerdau Ameristeel's intention to sell these investments when liquidity returns to the market for these securities, if Gerdau Ameristeel determines that an issuer of the securities is unable to successfully close future auctions, or redeem or refinance the obligations, Gerdau Ameristeel might have to reclassify the investments from a current asset to a non-current asset. Gerdau Ameristeel's $94,591 marketable securities portfolio at December 31, 2007, consisted of such auction rate securities. These securities were rated between AA- and AAA by third party credit rating agencies. Due to the lack of availability of observable market quotes on Gerdau Ameristeel's investment portfolio of marketable securities and auction rate securities, Gerdau Ameristeel utilizes valuation models including those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. As a result of this analysis of other-than-temporary impairment factors, Gerdau Ameristeel recorded a permanent impairment of approximately $9 million (pre-tax) at December 31, 2007 related to these auction rate securities. These securities will be analyzed each reporting period for possible further other-than-temporary impairment factors. All income generated from these investments was recorded as financial income.

Other Countries

At December 31, 2007, other available for sale securities was $61,438 which are recorded at fair value and corresponding to shares of Acerias Paz del Rio S.A., a Colombian steel company. These shares are valuated by market quotation price and the Company's intention is not to keep those securities as a permanent investment. At December 31, 2007, the cost amount of these securities was $53,666. All unrealized gains generated from these investments are recorded directly in shareholders equity in the amount of $7,772.

Held to Maturity

Held to maturity securities matured during 2007 and the amount redeemed at their maturity date was $163,194. At December 31, 2006 the Company held $138,200 of investments in these securities.

(in thousands of U.S. Dollars, unless otherwise stated)

6 Trade accounts receivable, net

	2007	2006
Trade accounts receivable	1,811,663	1,318,698
Less: allowance for doubtful accounts	(30,306)	(35,278)
	1,781,357	1,283,420

7 Inventories

	2007	2006
Finished products	1,263,252	891,724
Work in process	762,634	539,496
Raw materials	722,309	519,245
Packaging and maintenance supplies	498,058	317,169
Advances to suppliers of materials	170,352	113,244
	3,416,605	2,380,878

8 Tax credits

Current assets

	2007	2006
Brazilian value-added tax on sales and services - ICMS	89,603	61,340
Brazilian excise tax – IPI	36,124	9,504
Brazilian tax for financing of social integration program - PIS	11,301	22,879
Brazilian tax for social security financing - COFINS	55,579	59,942
Withholding income tax	107,003	82,386
Corporate value-added tax – IVA	29,937	8,606
Others	11,078	8,862
	340,625	253,519

Non-current assets

	2007	2006
Brazilian value-added tax on sales and services - ICMS	102,977	72,351
Brazilian tax for financing of social integration program - PIS	13,485	6,347
Brazilian tax for social security financing - COFINS	61,469	32,460
Withholding income tax	153,123	53,212
Others	8,776	28,597
	339,830	192,967

(in thousands of U.S. Dollars, unless otherwise stated)

9 Balances and transactions with related parties

	2007	2006
Other non-current assets		
Loans and advances to directors	1,180	1,062
Receivable from Metalúrgica Gerdau S.A.	49	—
Receivable from Fundação Gerdau	1,113	476
Receivable from Florestal Rio Largo Ltda.	7	133
Receivable from Santa Felicidade S.A.	8	124
Receivable from Armacero Ind. Com. Ltda.	6	—
Others	3	—
Other current liabilities		
Payable to Metalúrgica Gerdau S.A.	—	1,209
Joint ventures North America	282	—
Others	36	—
Financial income, net	3,993	589

In addition to the balances in the table presented above:

- Banco Gerdau S.A. is a wholly owned subsidiary of MG and manage investment funds for the exclusive use of the Company. The funds managed as of December 31, 2007 amounted to $636,446 (2006 - $1,546,836) and its investments consist of time deposits and debentures issued by major Brazilian banks, and treasury bills issued by the Brazilian government. Income earned on the Company’s investment in the fund aggregated $128.732 in 2007, $222,496 in 2006 and $111,737 in 2005, representing average yields of 11.9%, 15.1% and 16.2%, respectively.

- INDAC – Indústria, Administração e Comércio S.A., a holding company controlled by the Gerdau family and a shareholder of MG acts as guarantor of some debt of the Company in exchange for a fee of 1% per year of the amount of debt guaranteed. The average amount of debt guaranteed during the year ended December 31, 2007 amounted to $965,335 (2006 - $836,218).

- The Company usually sells and purchase its debentures to or from related parties. The Company has no obligation to repurchase any of such debentures, and purchases and sales have been made as a part of the overall management of liquidity of the Company.

(in thousands of U.S. Dollars, unless otherwise stated)

10 Property, plant and equipment, net

	2007	2006
Buildings and improvements	2,222,619	1,555,944
Machinery and equipment	7,925,285	5,283,344
Vehicles	70,345	50,542
Furniture and fixtures	89,082	71,847
Other	531,918	360,346
	10,839,249	7,322,023
Less: Accumulated depreciation	(4,115,228)	(2,994,815)
	6,724,021	4,327,208
Land	503,882	384,482
Construction in progress	1,391,811	1,278,939
Total	8,619,714	5,990,629

Construction in progress as of December 31, 2007 represents principally amounts invested in the expansion of Ouro Branco industrial facility in the subsidiary Gerdau Açominas S.A.. The Company capitalized interest on construction in progress in the amount of $65,098 in 2007 and $65,900 in 2006.

As of December 31, 2007, machinery and equipment with a net book value of $1,055,641 ($655,414 as of December 31, 2006) was pledged as collateral for certain long-term debt.

During September 2006, the Company ceased operations of the melt shop at its Perth Amboy, New Jersey wire rod mill. As a result, the Company recorded $32,400 of accelerated depreciation of buildings and equipment to write-off the melt shop assets of the mill. As of December 31, 2007 and 2006, the Company also recorded an additional $3,178 and $9,400, respectively charge to other operating expenses. This charge includes estimated costs related to the termination of certain take or pay contracts, the write-off of certain equipment spares maintained in inventory, expected severance costs for the affected employees, and the estimated costs related to disposing of dust from the baghouse.

11 Equity investments

	2007	2006
Joint-ventures in North America:		
Gallatin Steel Company	140,473	158,800
MRM Guide Rail	9,741	7,376
Bradley Steel Processors	2,174	1,291
Co-Steel Dofasco LLC	8,779	—
Multisteel Business Holdings Corp. (Dominican Republic)	122,374	—
Armacero Industrial y Comercial Ltda. (Chile)	3,378	3,751
Dona Francisca Energética S.A. (Brazil)	30,298	26,293
	317,217	197,511

12 Goodwill and Intangibles assets

The change in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 is as follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007					2006				
	Long Brazil	North America	Latin America	Specialty Steel	Total	Long Brazil	North America	Latin America	Specialty Steel	Total
Balance at the beginning of the year	—	252,599	23,592	60,577	336,768	1,234	122,716	23,904	—	147,854
Goodwill arising on acquisition of Aplema Com Prod Agroflorestais (Note 4.n)	30,467	—	—	—	30,467	—	—	—	—	—
Chaparral Steel Company (Note 4.g)	—	2,773,209	—	—	2,773,209	—	—	—	—	—
Enco Materials Inc. (Note 4.h)	—	26,160	—	—	26,160	—	—	—	—	—
Gerdau Acominas S.A. (Note 4.m)	96,047	—	—	—	96,047	—	—	—	—	—
Gerdau Aços Especiais S.A. (Note 4.m)	—	—	—	19,313	19,313	—	—	—	—	—
Gerdau Aços Longos S.A. (Note 4.m)	94,691	—	—	—	94,691	—	—	—	—	—
Gerdau Comercial de Aços S.A. (Note 4.m)	15,451	—	—	—	15,451	—	—	—	—	—
GSB Aceros S.L. (Note 4.u)	—	—	—	—	—	—	—	—	60,577	60,577
Grupo Feld, S.A. de C.V. (Note 4.a)	—	—	124,977	—	124,977	—	—	—	—	—
Pacific Coast Steel Inc. (Note 4.t)	—	—	—	—	—	—	66,202	—	—	66,202
Sheffield Steel Corporation (Note 4.r)	—	—	—	—	—	—	63,681	—	—	63,681
Siderúrgica Zuliana, C.A. (Note 4.b)	—	—	58,293	—	58,293	—	—	—	—	—
Sipar Aceros S.A. (Note 4.k,w)	—	—	3,417	—	3,417	—	—	—	—	—
Trefilados de Urbina, S.A. -Trefusa (Note 4.j)	—	—	—	11,291	11,291	—	—	—	—	—
Other aquisitions	—	862	—	—	862	—	—	—	—	—
Purchase price allocation of GSB Aceros S.L. (Note 4.u)	—	—	—	(60,577)	(60,577)	—	—	—	—	—
Assets goodwill write-off of Atlas Steel	—	(1,924)	—	—	(1,924)	—	—	—	—	—
Impairment of Margusa goodwill	—	—	—	—	—	(1,630)	—	—	—	(1,630)
Effect of exchange rate on goodwill of operations in Latin America and Brazil	—	—	6,881	—	6,881	396	—	(312)	—	84
Balance at the end of the year	236,656	3,050,906	217,160	30,604	3,535,326	—	252,599	23,592	60,577	336,768

The Company performed the annual impairment test required by SFAS 142. The Company identified that goodwill allocated to its reporting unit Margusa (a pig iron producer reported within the reporting segment Long Brazil) acquired in 2003 has been impaired. The main reason for the goodwill impairment is the reduction in pig iron prices during 2006 in the Brazilian and foreign markets as well as the appreciation of Brazilian real against the U.S. dollar during 2006, with both factors negatively affecting profitability of Margusa. Other Brazilian pig iron producers experienced similar situations during the past two years. The Company uses EBITDA multiples of comparable companies in order to estimate the fair value of its reporting units including Margusa. This computation resulted in the recognition of a loss of $1,630, recorded under “Other operating (expenses) income, net”, during the year ended December 31, 2006.

During December 2007, Gerdau Ameristeel decided to sell the assets of the Atlas Steel downstream location. As a result, Gerdau Ameristeel recorded a $3,200 charge to other operating expenses, consisting of charges to write-off certain inventory items of $1,300 and goodwill of $1,924 associated with this facility and allocated to the downstream segment.

Intangible assets are comprised of the following:

	2007			2006		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer relationships	575,225	(8,174)	567,051	7,952	(63)	7,889
Patented tecnology	29,220	(1,742)	27,478	220	(6)	214
Internally developed software	1,000	(500)	500	0	0	0
Order backlog	16,354	(15,333)	1,021	1,155	(140)	1,015
Trade name	3,850	(898)	2,952	3,850	(233)	3,617
Non-compete agreements	6,633	(894)	5,739	1,862	(234)	1,628
Carbon emission reduction certificates	4,473	(8)	4,465	8,722	0	8,722
	636,755	(27,549)	609,206	23,761	(676)	23,085

(in thousands of U.S. Dollars, unless otherwise stated)

For the years ended December 31, 2007 and 2006, the Company recorded amortization expense related to its intangible assets of $26.6 million and $0.5 million, respectively.

The estimated amortization expense for each of five succeeding fiscal years is as follows:

	2008	2009	2010	2011	2012
Customer relationships	87,543	49,390	50,753	50,072	47,347
Patented tecnology	5,813	5,813	5,813	5,813	4,091
Internally developed software	500	—	—	—	—
Order backlog	811	207	3	—	—
Trade name	770	770	770	642	—
Non-compete agreements	1,528	1,528	1,528	1,041	114
	96,965	57,708	58,867	57,568	51,552

13 Accrued pension and other post-retirement benefits obligation

13.1 Summary of amounts recognized in the balance sheet

The amounts recognized in the balance sheets are as follows:

	2007	2006
Non-current liabilities		
Liabilities with benefit for retirement and termination	172,885	80,061
North American pension obligation	134,808	132,155
North American obligation other than pension	117,614	106,348
Accrued liability related to pension and other benefit obligation	425,307	318,564
Non-current assets		
Other assets for the North American plans	5,826	1,894
Prepaid pension cost for the Brazilian plans	388,016	241,664
	393,842	243,558

13.2 Pension Plans

The Company and other related companies in the Group co-sponsor pension plans (the “Brazilian Plans”) covering substantially all employees based in Brazil. The Brazilian Plans consist of a plan for the employees of the former Açominas and its subsidiaries (“Gerdau Açominas Plan”) and another plan for the employees of its other operations in Brazil (“Gerdau Plan”). The Brazilian Plans are mainly defined benefit plans with certain limited defined contributions. Additionally, Gerdau Ameristeel and its subsidiaries sponsor defined benefit plans (the “North American Plans”) covering the majority of their employees. Contributions to the Brazilian Plans and the North American Plans are based on actuarially determined amounts.

Contributions to the Brazilian Plans for defined contribution participants are based on a specified percentage of employees’ compensation and totaled $930 in 2007, $1,718 in 2006 and $1,703 in 2005. Contributions to and expenses for defined contribution retirement plans of employees of the subsidiaries in the United States and Canada amounted to $12,200, $6,600 and $5,400 in 2007, 2006 and 2005, respectively.

(in thousands of U.S. Dollars, unless otherwise stated)

See Note 3.11 for further information regarding the adoption of SFAS 158.

Brazilian Plans

The adjustments for SFAS 158 affected our Consolidated Balance Sheet as follows:

	2006
Before Application of SFAS 158	
Prepaid benefit cost	104,917
Adjustments	
Prepaid benefit cost	136,747
Accumulated other comprehensive income	(136,747)
After Application of SFAS 158	
Prepaid benefit cost	241,664
Accumulated other comprehensive income	(136,747)

Net periodic pension benefit relating to the defined benefit component of the Brazilian Plans was as follows:

	2007	2006	2005
Service cost	17,705	13,370	10,133
Interest cost	47,317	39,919	31,200
Expected return on plan assets	(86,870)	(71,678)	(50,090)
Plan participants' contributions	(3,022)	(6,841)	(2,155)
Amortization of unrecognized gains and losses, net	(4,838)	(4,342)	(1,830)
Amortization of prior service cost	940	867	467
Amortization of unrecognized transition benefit	(686)	(614)	(349)
Net pension benefit	(29,454)	(29,319)	(12,624)

The funded status of the defined benefit components of the Brazilian Plans was as follows:

	2007	2006
Plan assets at fair value	960,817	662,746
Projected benefit obligation	(572,801)	(421,082)
Funded status	388,016	241,664

The amounts recognized in the Balance Sheets are as follows:

	2007	2006
Prepaid benefit cost	388,016	241,664
Net asset reconized, end of year	388,016	241,664

The amounts before taxes recognized in accumulated other comprehensive income (loss) at December 31, 2007 and 2006, as a result of the implementation of SFAS 158, are follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006
Transition asset	(1,317)	(1,842)
Prior service cost	7,611	7,914
Net actuarial gain	(200,129)	(142,819)
	(193,835)	(136,747)

The amounts in accumulated other comprehensive income (loss) expected to be recognized as a component of net periodic benefit in 2008 is as follows:

	2008
Amortization of transition asset	755
Amortization of prior service cost	1,440
Amortization of net actuarial gain	(6,915)

Additional information for the Brazilian Plans is as follows:

	2007	2006
Change in benefit obligation		
Benefit obligation at the beginning of the year	421,082	328,789
Service cost	17,705	13,370
Interest cost	47,317	39,919
Actuarial loss	6,166	17,177
Benefits paid	(13,525)	(10,560)
Effect of exchange rate changes	94,056	32,387
Benefit obligation at the end of the year	572,801	421,082

	2007	2006
Change in plan assets		
Fair value of plan assets at the beginning of the year	662,746	502,076
Actual return on plan assets	145,801	110,546
Employer contributions	11,145	8,037
Plan participants' contributions	4,698	3,258
Benefits paid	(13,525)	(10,560)
Effect of exchange rate changes	149,952	49,389
Fair value of plan assets at the end of the year	960,817	662,746

Expected benefit payments	
2008	14,589
2009	21,914
2010	24,361
2011	27,339
2012	30,543
2013 – 2017	217,911

The assumptions used for the defined benefit component of the Brazilian Plans are presented below. The rates presented below are nominal rates and consider annual inflation of 4%.

(in thousands of U.S. Dollars, unless otherwise stated)

Assumptions used to determine benefit obligations (in % per year):

	2007	2006
Discount rate	10.24%	10.24%
Rate of increase in compensation	8.16% - 6.60%	8.16% - 7.64%

Assumptions used to determine net periodic benefit cost for the year (in% per year):

	2007	2006	2005
Weighted-average discount rate	10.24%	11.30%	11.30%
Rate of increase in compensation	8.16% - 6.60%	8.68% - 9.20%	8.68% - 9.20%
Long-term rate of return on plan assets	13.52% - 11.91%	12.35%	12.35%

The plan asset return is the expected average return of each asset category weighted by target allocations. Asset categories' returns are based on long term macroeconomic scenarios.

Brazilian Plan assets as of December 31, 2007 include shares of Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and of Gerdau in the amounts of $12,210, $8,349, $1,434, $1,958, and $44,045, respectively (2006 – Gerdau Açominas - $10,115, Gerdau Aços Longos - $6,917, Gerdau Aços Especiais - $1,188, Gerdau Comercial de Aços - $1,622 and Gerdau - $24,348) and shares of Metalúrgica Gerdau S.A of $36,173 (2006 - $21,516).

The Brazilian Plans are managed by Gerdau – Sociedade de Previdência Privada (with respect to the Gerdau Plan) and Fundação Açominas de Seguridade Social – Aços (with respect to the Gerdau Açominas Plan"). The pension plan accumulated benefit obligation, the weighted-average asset allocations, and the asset target allocation for 2007, by asset category, are as follows:

	Gerdau Plan		Gerdau Açominas Plan	
	2007	2006	2007	2006
Accumulated benefit obligation	77,793	63,473	396,549	270,905
Allocation of assets by category as of December 31				
Equity Securities	33.00%	33.08%	10.04%	13.60%
Fixed income	67.00%	66.92%	87.35%	84.21%
Real estate	—	—	0.50%	1.00%
Loans	—	—	2.11%	1.19%
Total	100.00%	100.00%	100.00%	100.00%

(in thousands of U.S. Dollars, unless otherwise stated)

	Gerdau Plan	Gerdau Açominas Plan
Target allocation of assets for 2008		
Equity securities	30.00%	14.00%
Fixed Income	70.00%	83.50%
Real estate	—	0.50%
Loans	—	2.00%
Total	100.00%	100.00%

The investment strategy for the Gerdau Plan is based on a long term macroeconomic scenario. This scenario considers reduction in Brazil's sovereign risk, moderate economic growth, stable levels of inflation and exchange rates, and moderate interest rates. The planned asset mix is composed of fixed income investments and equities. The fixed income target allocation ranges from 55% to 100%, and equities target allocation ranges from 0% to 45%. The expected employer contributions for 2008 are $1,685.

The Gerdau Açominas Plan aims to reach the investment target returns in the short and long term, through the best relation of risk versus the expected return. The investments determined by the investment policy allocation targets are: fixed income 70% to 100%, equities 0% to 25%, real estate allocation 0% to 5% and loans 1% to 5%. The expected employer contributions for 2008 are $12,621.

The measurement date for the Gerdau Plan is December 31 and for the Gerdau Açominas Plan is November 30.

North American Plans

The adjustments for SFAS 158 affected the Company's Consolidated Balance Sheet as follows:

	2006
Before Application of SFAS 158	
Prepaid benefit cost	3,855
Accrued benefit liability	(82,517)
Intangible asset	5,241
Accumulated other comprehensive income	31,081
Adjustments	
Prepaid benefit cost	(1,961)
Accrued benefit liability	(50,095)
Intangible asset	(5,241)
Accumulated other comprehensive income	57,297
After Application of SFAS 158	
Prepaid benefit cost	1,894
Accrued benefit liability	(132,612)
Accumulated other comprehensive income	88,378

The components of net periodic pension cost for the North American Plans are as follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006	2005
Service cost	24,557	21,720	16,918
Interest cost	32,966	28,733	24,537
Expected return on plan assets	(35,675)	(29,519)	(24,388)
Amortization of transition liability	211	200	187
Amortization of prior service cost	4,536	2,252	1,296
Amortization of net actuarial loss	2,518	5,760	3,349
Net pension expense	29,113	29,146	21,899

The funded status of the North American Plans is as follows:

	2007	2006
Plan assets at fair value	532,047	459,566
Projected benefit obligation	(662,978)	(590,284)
Funded status	(130,931)	(130,718)

The amounts recognized in the Balance Sheets are as follows:

	2007	2006
Other assets	5,826	1,894
Accrued salaries, wages and employee benefits	(1,949)	(457)
Accrued benefefit obligations	(134,808)	(132,155)
Net liability recognized, end of year	(130,931)	(130,718)

The amounts before taxes recognized in accumulated other comprehensive income (loss) at December 31, 2007 and 2006, as a result of the implementation of SFAS 158, are follows:

	2007	2006
Transition obligation	1,575	1,530
Prior service cost	15,319	6,440
Net actuarial loss	54,670	80,408
	71,564	88,378

The amounts in accumulated other comprehensive income (loss) expected to be recognized as a component of a net periodic benefit in 2008 as follows:

	2008
Amortization of transition liability	229
Amortization of prior service cost	4,394
Amortization of net actuarial loss	1,110

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006
Projected benefit obligation	550,510	534,151
Accumulated benefit obligation	500,642	472,147
Fair value of plan assets	418,107	401,545

Additional information required for the North American Plans is as follows:

	2007	2006
Change in benefit obligation		
Benefit obligation at the beginning of the year	590,284	501,635
Aquisition of Sheffield	25,879	45,365
Service cost	24,557	21,720
Interest cost	32,966	28,733
Amendments	11,903	2,037
Actuarial loss	(48,174)	11,675
Benefits paid	(24,327)	(20,795)
Foreign exchange loss/(gain)	49,890	(86)
Benefit obligation at the end of the year	662,978	590,284

	2007	2006
Change in plan assets		
Plan assets at the beginning of the year	459,566	361,414
Aquisition of Sheffield	9,372	35,261
Employer contributions	33,019	30,176
Benefits paid	(24,327)	(20,795)
Actual return on assets	10,520	54,319
Foreign exchange gain/(loss)	43,897	(809)
Plan assets at the end of the year	532,047	459,566

The North American Plans were impacted by amendments that enhanced benefits paid. These costs were deferred and will be recognized during the average future service time of the participants.

Expected benefit payments	
2008	28,195
2009	29,544
2010	31,375
2011	33,395
2012	35,644
2013 – 2016	218,672

Assumptions used in accounting for the North American Plans were:

Weighted-average assumptions used to determine benefits obligations:

	2007	2006
Discount rate	5.50% - 6.25%	5.00% - 5.75%
Expected long-term return on plan assets	7.00% - 8.25%	7.00% - 8.40%
Rate of compensation in increase	3.50% - 4.25%	2.50% - 4.25%

(in thousands of U.S. Dollars, unless otherwise stated)

Weighted-average assumptions used to determine net periodic benefit costs for the year:

	2007	2006	2005
Discount rate	5.00% - 6.00%	5.00% - 5.75%	5.75% - 6.00%
Expected long-term return on plan assets	7.00% - 8.40%	7.25% - 8.40%	7.50% - 8.40%
Rate of compensation in increase	2.50% - 4.25%	2.50% - 4.25%	2.50% - 4.25%

The pension plan weighted-average asset allocations at December 31, 2007 and 2006, by asset category are as follows.

	2007	2006
Equity securities	66.80%	66.80%
Debt securities	31.60%	31.50%
Real estate	0.40%	0.00%
Other	1.20%	1.70%
Total	100.00%	100.00%

Gerdau Ameristeel has an Investment Committee that defines the investment policy related to the defined benefit plans. The primary investment objective is to ensure the security of benefits that have accrued under the plans by providing an adequately funded asset pool which is separate from and independent of Gerdau Ameristeel. To accomplish this objective, the fund shall be invested in a manner that adheres to the safeguards and diversity to which a prudent investor of pension funds would normally adhere. Gerdau Ameristeel retains specialized consultant providers that advise and support the Investment Committee decisions and recommendations.

The asset mix policy will consider the principles of diversification and long-term investment goals, as well as liquidity requirements. In order to accomplish that, the target allocations for 2008 range between 65% to 75% in equity securities, 35% to 25% in debt securities.

The Company expects to contribute $37,000 to its pension plans in 2008.

The measurement date for the North American Plans is December 31.

Multi-employer pension plans

PCS, a majority owned and consolidated joint venture of the Company, is a contributor to trade union multi-employer pension plans. The Employee Retirement Income Security Act of 1974, as amended by the Multi-Employers Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to multi-employer plans if the employer withdraws from the plan or if the plan terminates. The Company's contingent liability, if any, under these laws cannot be determined at this time. Contributions to these multi-employer pension plans totaled $20,700 and $3,400 for the years ended December 31, 2007 and 2006, respectively.

13.3 Other Post-Retirement Benefits

The subsidiaries in North America currently provide specified health care benefits to retired employees. Employees who retire after a certain age with specified years of service become eligible for benefits under this unfunded plan. The Company has the right to modify or terminate these benefits.

The adjustments for SFAS 158 affected the Company's Consolidated Balance Sheet as follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	2006
Before Application of SFAS 158	
Accrued benefit liability	(102,926)
Adjustments	
Accrued benefit liability	(7,750)
Accumulated other comprehensive income	7,750
After Application of SFAS 158	
Accrued benefit liability	(110,676)
Accumulated other comprehensive income	7,750

The components of net periodic pension cost for the post-retirement health benefits are as follows:

	2007	2006	2005
Service cost	2,957	2,026	1,450
Interest cost	6,424	4,485	2,736
Amoritzation of prior service cost	(355)	(348)	(329)
Amortization of net actuarial loss	549	458	98
Net post-retirement health expense	9,575	6,621	3,955

The following sets forth the funded status of the post-retirement health benefits:

	2007	2006
Projected benefit obligation	123,156	110,676
Funded status	(123,156)	(110,676)

The amounts recognized in the Consolidated Balance Sheets are as follows:

	2007	2006
Accrued salaries, wages and employee benefits	(5,542)	(4,328)
Accrued benefefit obligations	(117,614)	(106,348)
Net liability reconized, end of year	(123,156)	(110,676)

The amounts before taxes recognized in accumulated other comprehensive income (loss) at December 31, 2007 and 2006, as a result of the implementation of SFAS 158, are follows:

	2007	2006
Prior service cost	(5,660)	(4,462)
Net actuarial loss	15,408	12,212
	9,748	7,750

The amounts in accumulated other comprehensive income (loss) expected to be recognized as a component of a net periodic benefit in 2008 as follows:

	2008
Amortization of prior service cost	(525)
Amortization of net actuarial loss	478

(in thousands of U.S. Dollars, unless otherwise stated)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2007	2006
Projected benefit obligation	123,156	110,676
Accumulated benefit obligation	123,156	110,676

Additional information required for post-retirement health benefits is as follows:

	2007	2006
Change in the projected benefit obligation		
Projected benefit obligation at the beginning of the year	110,676	59,555
Aquisition of Sheffield	—	47,362
Service cost	2,957	2,026
Benefits paid	(6,450)	(4,015)
Medicare Part D subsidy	316	—
Interest cost	6,424	4,485
Plan participants' contributions	1,659	1,036
Foreign exchange loss/(gain)	6,682	(12)
Amendments	(1,218)	—
Actuarial loss	2,110	239
Projected benefit obligation at the end of the year	123,156	110,676

	2007	2006
Change in plan assets		
Employer contribution	4,475	2,979
Plan participants' contributions	1,659	1,036
Benefits and administrative expenses paid	(6,450)	(4,015)
Medicare Part D subsidy	316	—
Plan assets at the end of the year	—	—

The post-retirement health benefits were impacted by amendments that enhanced benefits paid. These costs were deferred and will be recognized during the average future service time of the participants.

	Plans Before Subsidy	Plans After Subsidy
Expected benefit payments		
2008	5,885	5,542
2009	6,185	5,796
2010	6,495	6,064
2011	6,919	6,452
2012	7,190	6,681
2013 – 2016	42,184	39,269

Assumptions used in the accounting for the post-retirement health benefits were:

Weighted-average assumptions used to determine benefits obligations for the year:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006
Discount rate	5.50% - 6.25%	5.00% - 5.75%

Weighted-average assumptions used to determine net periodic benefit costs for the year:

	2007	2006	2005
Discount rate	5.00% - 5.75%	5.00% - 5.75%	5.75% - 6.00%

	2007	2006	2005
Health care - trend rate assumed for following year	9.50% - 10.00%	8.50% - 11.00%	9.50% - 12.00%
Health care – Rate to which the cost is assumed to decline (ultimate trend rate)	5.00% - 5.50%	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2013 - 2016	2010 - 2013	2010 - 2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1 Percentage point increase	1 Percentage point decrease
Effect on total of service and interest cost	1,592	(1,246)
Effect on postretirement benefit obligation	17,056	(13,973)

14 Short-term debt

Short-term debt consists of working capital loans and export advances, mainly denominated in U.S. dollars, with average interest rates of 7.54 per annum (p.a.) (2006 – 7.32 p.a.). Advances received against export commitments are obtained from commercial banks with a commitment that the products will be exported.

15 Long-term debt and debentures

Long-term debt consisted of the following as of December 31:

(in thousands of U.S. Dollars, unless otherwise stated)

	Weighted average Annual Interest Rate % at December 31, 2007	2007	2006
Long-term debt, excluding debentures, denominated in Brazilian reais			
Working capital	10.32%	59,279	50,532
Financing for investments	11.61%	420,214	426,907
Financing for machinery	10.32%	886,297	321,119
Long-term debt, excluding debentures, denominated in foreign currencies			
(a) Long-term debt of Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Aços Villares:			
Working capital (US$)	7.77%	1,183	107,872
Guaranteed Perpetual Senior Securities (US$)	9.75%	600,000	600,000
Financing for machinery and others (US$)	7.48%	892,266	867,817
Export Receivables Notes by Gerdau Açominas (US$)		—	203,882
Advances on exports (US$)	6.60%	259,892	309,663
Financing for investments (US$)		—	13,181
(b) Long-term debt of Sipar Aceros, Diaco, Sidelpa, Gerdau Aza S.A., Siderperú, Siderúrgica Zuliana and GTL Trade Finance Inc. (Ten-Year Bond)			
Financing for investments (US$)	6.80%	162,050	45,667
Ten-Year Bond (US$)	7.25%	1,000,000	—
Working capital (Chilean pesos)	5.77%	3,112	3,483
Working capital (Colombian Pesos)	8.23%	703	1,134
(c) Long-term debt of Gerdau Ameristeel			
Senior notes, net of original issue discount (US$)	10.38%	400,819	397,512
Term Loan Facility (US$)	5.73%	2,600,000	—
Senior Secured Credit Facility (Cdn$)		—	490
Industrial Revenue Bonds (US$)	3.40% to 6.38%	54,600	31,600
Other		13	4,995
(d) Long-term debt of Corporación Sidenor			
Working capital (Euros)	5.15%	368,717	304,835
		7,709,145	3,690,689
Less: current portion		(655,229)	(561,821)
Long-term debt, excluding debentures, less current portion		7,053,916	3,128,868

Long-term debt matures in the following years:

2009	765,741
2010	554,079
2011	1,538,351
2012	1,530,075
After 2012	2,665,670
	7,053,916

Long-term debt, excluding debentures, denominated in Brazilian *reais*

Long-term debt denominated in Brazilian *reais* is indexed for inflation using the TJLP rate set by the Government on a quarterly basis, or based on IGP-M.

Long-term debt, excluding debentures, denominated in foreign currencies

(a) Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Aços Villares

The debt agreements entered into by the Company's Brazilian subsidiaries contain covenants, which are described below, that require the maintenance of certain ratios, as calculated in accordance with the Company's financial statements prepared in accordance with IFRS. The covenants include financial covenants including ratios on liquidity, total debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in the respective debt agreements), debt service coverage and interest coverage, amongst others. At December 31, 2007, the Company was in compliance with all of its debt covenants.

Export Receivables Notes issued by Gerdau Açominas

On September 5, 2003, Gerdau Açominas concluded a private placement of the first tranche of Export Notes in the amount of $105,000. The Export Notes bear interest of 7.37% p.a.. On June 3, 2004 Gerdau Açominas S.A. also placed privately the second tranche for a notional amount of $128,000 of its Export Receivables Notes. This second tranche was placed with interest of 7.321% p.a.. In October 2007, the Company paid all debt related to Export Notes.

Guaranteed Perpetual Senior Securities

On September 15, 2005, Gerdau S.A. concluded a private placement of the $600,000 with 9.75% p.a. of interest bearing Guaranteed Perpetual Senior Securities. Such bonds are guaranteed by the following operating companies of Gerdau based in Brazil: Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The bonds do not have a stated maturity date but should be redeemed by Gerdau S.A. in the event of certain specified events of default (as defined in the terms of the bonds) which are not fully under the control of the Company. The Company has a call option to redeem these bonds at any moment after 5 years of placement (September 2010). Interest payments are due on a quarterly basis, and each quarterly payment date is also a call date after September 2010.

Covenants

As a way of monitoring the financial condition of the Company, the banks involved in certain of the financing agreements use restrictive covenants, as described below:

I) Consolidated Interest Coverage Ratio - measures the debt service payment capacity in relation to EBITDA (Net Income before Interest, Taxes, Depreciation and Amortization)
II) Consolidated Leverage Ratio - measures the debt coverage capacity in relation to EBITDA (Net Income before Interest, Taxes, Depreciation and Amortization).
III) Required Minimum Net Worth - measures the minimum net worth required in financing agreements.
IV) Current Ratio (current liquidity ratio) - measures the capacity to pay current liabilities.

All the covenants mentioned above are calculated based on the Consolidated Financial Statements in IFRS of Gerdau S.A., except for item IV, which refers to Metalúrgica Gerdau S.A., and have been complied with. Pursuant to the agreements, the penalty for non-compliance with such covenants is the possibility of a default statement by the banks and acceleration of maturity of loans.

(b) Sipar Aceros, Diaco, Sidelpa, Gerdau AZA, Siderperú, Siderúrgica Zuliana and GTL Trade Finance Inc.

Most of debt in Latin America (except Brazil) is related to financing for the acquisition of interests in Diaco and Sidelpa, denominated in U.S. dollars and contracted with Banco de Chile. Such debt matures in 2010, and bears interest of Libor + 1.4% p.a..

The subsidiary Siderperú has obtained a financing for working capital of $111,568, maturing in 2014 with a variable rate of Libor + 0.9% p.a.. Such proceeds were used to pay out the outstanding debt with suppliers and credits acquired by the Company by the time of the acquisition of this subsidiary.

Ten-Year Bond

On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the placement of Ten-Year Bonds in the amount of $1 billion. Such Bonds, which mature on October 20, 2017, are subject to interest of 7.25% p.a., payable semi-annually in the months of April and October, beginning April 2008, and guaranteed by Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., and Gerdau Comercial de Aços S.A. The bonds are senior unsecured obligations of the Issuer, ranking equal in right of payment with all of the Issuer's other existing and future senior unsecured debt. The guarantees of the bond will rank *pari passu* with all unsecured and unsubordinated obligations of each of the Guarantors.

The bonds and the guarantees of the bonds were not registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or under any state securities law. Therefore, the bonds were not offered or sold within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale was qualified for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, the bonds were offered and sold to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and to non U.S. people outside the United States in compliance with Regulation S under the Securities Act.

(c) Gerdau Ameristeel Debt

On June 27, 2003, Gerdau Ameristeel refinanced its debt by issuing Senior Notes with aggregate principal in the amount of $405,000 and interest of 10 3/8%. The notes mature July 15, 2011 and were issued at 98% of face value. Gerdau Ameristeel's can call these senior notes at any time at a redemption price that ranges from 105 3/8% to 100%, depending on the year the call is made.

On October 31, 2005, Gerdau Ameristeel entered into a new Senior Secured Credit Facility, which provided commitments of up to $650,000 and expires on October 31, 2010. On February 6, 2007, Gerdau Ameristeel completed an amendment to the Senior Secured Credit Facility which increased the amount of net intercompany balances that are permitted to exist between the credit parties and Gerdau Ameristeel's U.S. operating subsidiaries until July 31, 2007. The lenders concurrently waived a covenant non-compliance related to these balances. Gerdau Ameristeel is in compliance with the terms of the amended facility. The borrowings under the Senior Secured Credit Facility are secured by the Gerdau Ameristeel's inventory and accounts receivable. At December 31, 2007 and 2006, there was nothing drawn against this facility based upon available collateral under the terms of the agreement. At December 31, 2007 and 2006, approximately $583.0 million and $592.4 million, respectively were available under the Senior Secured Credit Facility, net of $67.0 million of outstanding letters of credit.

On September 14, 2007, the Gerdau Ameristeel financed its acquisition of Chaparral Steel Company, in part, by a $1,150,000 Bridge Loan Facility and a $2,750,000 Term Loan Facility. By December 31, 2007, the Bridge Loan facility had been fully repaid and $150,000 million of the Term Loan has also been repaid.

The Term Loan Facility has tranches maturing between 5 and 6 years from the closing date and bears interest at Libor plus between 1.00% and 1.25%. The Term Loan Facility is not secured by the assets of Gerdau Ameristeel or its subsidiaries. Gerdau S.A. and its Brazilian operating affiliates (Gerdau Aços Longos, Gerdau Açominas, Gerdau Aços Especiais and Gerdau Comercial de Aços) have guaranteed the obligations of the borrowers under both credit facilities. The Term Loan Facility includes financial covenants requiring Gerdau S.A. and its subsidiaries on a consolidated basis to satisfy maximum total debt to EBITDA and minimum EBITDA to interest expense tests, and the value of Gerdau S.A.'s and certain of its subsidiaries' receivables under certain off-take supply contracts to at all times exceed the principal amount of the outstanding term loans. The Term Loan Facility is unsecured but provides for a springing lien in the off-take supply contracts. The Term Loan Facility also contains customary covenants restricting the Company's ability, including the ability of certain of its subsidiaries, including Gerdau Ameristeel US Inc. and GNA Partners, GP, to incur additional liens on such entities' assets, enter into certain transactions with affiliates and enter into certain merger transactions. The Company is in compliance with the terms of the Term Loan Facility.

(d) Corporación Sidenor

In December, 2006, Corporación Sidenor obtained a loan in the amount of €150,000 ($220,905) to conclude the acquisition of GSB Aceros S.L. and in October, 2007, a loan in the amount of €50,000 ($73,635) to the acquisition of SJK Steel Co. These debts mature between 2009 and 2013.

Lines of credit

In October, 2005, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços obtained a pre-approved line of credit from BNDES for the purchase of machinery and related expenses for a total amount of $508,101, bearing interest of TJLP+2.5% p.a. Amounts will be released as investments are made by the subsidiaries and they present to BNDES documentation supporting to the investments made. At December 31, 2007, $302,276 was drawn against this facility. These contracts are guaranteed by INDAC (parent company of Metalúrgica Gerdau S.A.).

In August, 2006, Gerdau Açominas obtained approval of a credit facility with BNDES in the total amount of $194,630 for the increase of production capacity of liquid steel of its Ouro Branco mill, from the current total annual production of 3.0 million tons/year to 4.5 million tons/year, through investment in a new coke plant, sinter plant and a new blast furnace, and for the social projects to be conducted directly or in partnership with public or non-for-profit private institutions to assist local community. This credit facility bears interest of TJLP+2% p.a. Such contracts are guaranteed by INDAC and are also subject to some financial covenants based on financial information of Metalúrgica Gerdau. At December 31, 2007, the total amount was drawn against this facility.

The Company announced the conclusion, on November 1, 2006, of a Senior Liquidity Facility. This facility amounts to $400,000 and the borrower will be the subsidiary GTL Trade Finance Inc., with the guarantee of Gerdau S.A., and its subsidiaries Gerdau Açominas, Gerdau Aços Longos , Gerdau Aços Especiais and Gerdau Comercial de Aços. The program has an availability period of 3 years, with 2 years for payment as from the date of each disbursement. The costs involve a facility fee amounting to 0.27% p.a. and interests, in the case disbursements are actually made, of Libor + 0.30% to 0.40% p.a.. At December 31, 2007, no amounts have been withdrawn under this facility.

Gerdau Açominas also has available the following lines of credit:

- $267,000 from a consortium of banks leaded by Citibank, N.A, Tokyo Branch guaranteed by Nippon Export and Investment Insurance (NEXI), maturing in 10 years, with 2 grace years and 8 years for repayment, bearing interest of Libor + 0.3% p.a. This amount will be used in the expansion of the Ouro Branco industrial facility. At December 31, 2007, the total amount was drawn against this facility.
- $69,000 from Export Development Canada, guaranteed by KFW Ipex Bank, maturing in 6 years, with 2 grace years and repayment in 4 years bearing interest of 7.22% p.a. At December 31, 2007, $38,000 had been drawn on this facility.
- $201,000 from BNP Paribas – France (50%) and from Industrial and Commercial Bank of China (50%), guaranteed by SINOSURE (China Export & Credit Insurance Corporation), maturing in 12 years, with 3

(in thousands of U.S. Dollars, unless otherwise stated)

grace years and 9 years for repayment bearing interest of 6.97% p.a. At December 31, 2007, $164,000 was drawn against this facility.

In March, 2007, the Company obtained an approval of a Commercial Loan with BNP Paribas, guaranteed by SINOSURE (China Export & Credit Insurance Corporation), in the total amount of $50,000. This loan has been taken in order to finance 15% of the new coke plant, sinter plant and a new blast furnace for the Ouro Branco mill. At December 31, 2007, the total amount was drawn against this facility.

Gerdau AZA has available the following lines of credit:

- $97,248 of lines for working capital, bearing interest of 6.96% p.a. At December 31, 2007, no amounts were withdrawn.

Gerdau Ameristeel has available the following lines of credit:

- $75,000 of a credit facility with KfW to provide financing for capital expenditures, expiring on November 30, 2008 and is secured by equipment purchased with the financing. At December 31, 2007, $15,400 was drawn against this facility.

Debentures

Debentures as of December 31, 2007 include five outstanding issuances of Gerdau and debentures issued by Aços Villares S.A., as follows:

	Issuance	Maturity	2007	2006
Debentures, denominated in Brazilian reais				
Third series	1982	2011	93,700	57,782
Seventh series	1982	2012	86,155	18,121
Eighth series	1982	2013	145,634	110,225
Ninth series	1983	2014	142,317	77,167
Eleventh series	1990	2020	74,040	45,840
Aços Villares S.A.	2005	2010	173,899	143,424
			715,745	452,559
Less: Debentures held by consolidated companies eliminated on consolidation			(184,341)	(7,908)
Total			531,404	444,651
Less: current portion (presented under Other current liabilities in the consolidated balance sheet)			(21,524)	(1,371)
Total debentures – non-current liabilities			509,880	443,280

Debentures mature in the following years:

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006
2008	—	17,757
2009	87,071	71,027
2010	65,304	53,270
2011	93,700	57,782
2012	37,431	18,121
After 2012	226,374	225,324
	509,880	443,280

(a) Debentures issued by Gerdau

Debentures are denominated in Brazilian *reais* and bear variable interest at a percentage of the CDI rate (*Certificado de Depósito Interbancário*, interbank interest rate). The annual average nominal interest rates were 11.82% and 15.03% during the years ended December 31, 2007 and 2006, respectively.

(b) Debentures issued by Aços Villares S.A.

Debentures issued by Aços Villares S.A. are denominated in Brazilian *reais* and bear variable interest at a percentage of 104.5% of the CDI rate, and mature in 5 years on September 1, 2010. The principal amount will be paid in 8 quarter installments beginning on December 1, 2008.

16 Commitments and contingencies

16.1 Tax and legal contingencies

The Company is party to claims with respect to certain taxes, civil and labor matters. Management believes, based in part on advice from legal counsel, that the provision for contingencies is sufficient to meet probable and reasonably estimable losses from unfavorable rulings, and that the ultimate resolution will not have a significant effect on the consolidated financial position as of December 31, 2007, although it may have a significant effect on future results of operations or cash flows.

The following table summarizes the contingent claims and related judicial deposits:

	Contingencies		Judicial deposits	
Claims	2007	2006	2007	2006
Tax	205,297	134,038	106,288	59,642
Labor	52,955	43,866	13,500	12,330
Other	7,074	11,821	6,523	8,131
	265,326	189,725	126,311	80,103

Probable losses on tax matters, for which a provision was recorded

All contingencies described in the section below correspond to instances where the Company is challenging the legality of taxes and contributions. The description of the contingent losses includes a description of the tax or contribution being challenged, the current status of the litigation as well as the amount of the probable loss which has been provided as of December 31, 2007.

- Of the total provision, $50,256 relates to a provision recorded by the subsidiary Gerdau Açominas on demands made by the Federal Revenue Secretariat regarding Import Taxes (“Imposto de Importação” - II), Taxes on Industrialized Products (“Imposto sobre Produtos Industrializados” - IPI) and related charges, due to transactions carried out under drawback concessions originally granted and afterwards annulled by DECEX (Foreign Operations Department in Brazil). Management does not agree with the administrative decision which has annulled the drawback concession and believes all transactions were carried out under the terms of the law. This demand is currently awaiting designation of a responsible judge of the Court.

- $50,502 relates to amounts of State Value Added Tax (“Imposto Sobre Circulação de Mercadorias e Serviços” - ICMS), the majority of which is related to credit rights involving the Finance Secretary of the states of Minas Gerais, Bahia, Mato Grosso and Mato Grosso do Sul and the State Court of the states of Minas Gerais, Pernambuco, Mato Grosso, Maranhão and Paraná. The contingencies amounts were updated through the balance sheet date in compliance to the legislation.

- $26,348 corresponds to lawsuits against the parent company Gerdau S.A. related to INSS contributions have mostly to do with Tax Collections and Annulment Lawsuits in Federal Trial and Second Instance Courts of Minas Gerais, Rio de Janeiro, Espírito Santo, and Pernambuco. The provision also refers to lawsuits questioning the position of the INSS charging INSS contributions on profit sharing payments made by the subsidiary Gerdau Açominas S.A., lawsuits related to Occupational Accident Insurance (SAT), as well as on payments for services rendered by third parties, in which the INSS calculated charges for the last 10 years and assessed the subsidiary company Gerdau Açominas S.A. because it understands that it is jointly liable. The assessments were maintained at the administrative level and Gerdau Açominas S.A. filed annulment actions with escrow deposits for the amount under discussion based on the understanding that the right to assess part of the charge has prescribed and that there is no joint liability.

- $19,193 relates to the Emergency Capacity Charge (“Encargo de Capacidade Emergencial” – ECE), as well as $12,201 related to the Extraordinary Tariff Recomposition (“Recomposição Tarifária Extraordinária” – RTE), which are charges included in the electric energy bills of the Company’s plants in Brazil. According to the Company, these charges are of a tax nature and, as such, are incompatible with the Brazilian National Tax System provided in the Federal Constitution. For this reason, the constitutionality of this charge is being challenged in court. The lawsuits are in progress in the Federal Justice of the states of São Paulo and Rio Grande do Sul, as well as in the Federal Regional Courts and High Court of Justice. The Company has fully deposited in court the amount of the disputed charges.

- The Company is also defending other taxes in the amount of $46,797 for which a provision has been made following advice from Company’s legal counsel.

Possible or remote losses on tax matters for which no provision was recorded

There are other contingent tax liabilities, for which the probability of losses are possible or remote and, therefore, are not recognized in the provision for contingencies. These claims are comprised by:

- The Company is defendant in debt foreclosures filed by the State of Minas Gerais to demand ICMS credits arising mainly from the sales of products to commercial exporters. The total amount of the processes is $27,706. The Company did not set up a provision for contingency in relation to these processes, since it considers this tax is not payable, because products for export are exempted from ICMS.

- The Company is defendant in tax foreclosures filed by the states of Minas Gerais and Pernambuco, which demand ICMS credits on the export of semi-finished manufactured products. The total amount demanded is $26,741. The Company did not set up a provision for contingency in relation to these processes since it considers the tax as not payable, because the products do not fit in the definition of semi-finished manufactured products defined by the federal complementary law and, therefore, are not subject to ICMS. During 2007, the lawsuit of the Gerdau Açominas S.A. had a favorable outcome for the company in a decision against which no appeal can be made.

- The Company has entered into Fiscal Recovering Program ("Programa de Recuperação Fiscal" – REFIS) on December 6, 2000, which allowed the Company to pay PIS and Cofins debts in 60 monthly installments. The final installment has been paid in May 31, 2005. There is a remaining balance being challenged amounting to $11,618, once certain outstanding issues identified in the administrative proceeding that the Company moves before the Management Committee of REFIS, the management believes the refinancing program will be finally extinguished.

- The Company and its subsidiaries Gerdau Açominas, Gerdau Aços Longos and Gerdau Comercial de Aços, have other lawsuits related to the Value Added Tax on Sales and Services (ICMS) and are mostly related to credit rights and rate differences, and whose demands reach a total of $43,304. An accounting provision was not made for these demands since they were considered as possible loss, but not probable.

- The Company and its subsidiary Gerdau Aços Longos are petitioners in legal cases over Property Tax (IPTU), Import Duty (II), and Excise Tax (IPI). The total value of these lawsuits today reaches $28,897. An accounting provision was not made for these demands since they were considered as possible losses, but not probable.

Unrecognized contingent tax assets

Management believes the realization of certain contingent assets is possible. However, no amount has been recognized for these contingent tax assets that would only be recognized upon final realization of the gain:

- Among them is a court-ordered debt security issued in 1999 in favor of the Company by the state of Rio de Janeiro in the amount of $15,006 arising from an ordinary lawsuit regarding non-compliance with the Loan Agreement for Periodic Execution in Cash under the Special Industrial Development Program - PRODI. Due to the default by the State of Rio de Janeiro and the non-regulation of the Constitutional Amendment 30/00, which granted the government a 10 year moratorium for the payment of securities issued to cover court-order debt not related to food. There are no expectation of realization of this credit in 2008 or in the following years, therefore is not recognized.

- The Company and its subsidiary Gerdau Açominas are claiming recovery of IPI premium credits. Gerdau S.A. has filed administrative appeals, which are pending judgment. With regard to the subsidiary Gerdau Açominas, the claims were filed directly to the courts and a decision unfavorable to Gerdau Açominas was issued and has been appealed by Gerdau Açominas. The Company estimates a credit in the amount of $133,318. The credit is not recognized due to the uncertainty of the realization.

Labor contingencies

The Company is also defending labor proceedings, for which there is a provision as of December 31, 2007 of $52,955. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, health and risk premiums, among others. The balances of deposits in court related to labor contingencies, at December 31, 2007, totaled $13,500.

Other contingencies

The Company is also defending in court civil proceedings arising from the normal course of its operations and has accrued $7,074 for these claims. Escrow deposits related to these contingencies, at December 31, 2007, amount to $6,524.

Other contingent liabilities with remote or possible chances of loss, involving uncertainties as to their occurrence, and therefore, not included in the provision for contingencies, are comprised by:

Antitrust process involving Gerdau S.A. related to the representation of two civil construction syndicates in the state of São Paulo that alleged that Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law – ("Secretaria de Direito Econômico"- SDE) and based on public hearings, the SDE is of the opinion that a cartel existed. This conclusion was also supported by an earlier opinion of the Secretariat for Economic Monitoring ("Secretaria de Acompanhamento Econômico" – SEAE). The process was sent to the Administrative Council for Economic Defense – ("Conselho Administrativo de Defesa Econômica" – CADE), for judgment.

CADE judgment was put on hold by an injunction obtained by Gerdau S.A., which aimed an annulment of the administrative process, due to formal irregularities included on it. This injunction was cancelled by appeals made by CADE and Federal Government, and CADE proceeded with the judgment. On September 23, 2005, CADE issued a rule condemning the Company and the other long steel producers, determining a fine of 7% of gross revenues less excise taxes of each company, based on the year before the starting of the process, due to cartel practices. The Company has appealed from this decision, and this appeal is still pending of judgment.

Nevertheless, the Company has proposed a judicial proceeding aiming to cancel the administrative process due to the above mentioned formal irregularities. If the Company is successful on this proceeding, the CADE decision can be annulled in the future.

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August, 30, 2006 to suspend the effect of CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 ($138,356). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after contested by CADE.

Prior to CADE decision, the Federal Public Ministry of Minas Gerais ("Ministério Público Federal de Minas Gerais") had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the Company of involvement in activities that breach antitrust laws. The Company has presented its defense on July 22, 2005.

Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available that the administrative process until now includes many irregularities, some of which are impossible to resolve. The Company believes it has not practiced any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

Insurance claim

A civil lawsuit was filed by Sul América Cia Nacional de Seguros on August 4, 2003 against Gerdau Açominas and Banco Westdeustsche Landesbank Girozentrale, New York Branch (WestLB), for the payment of $19,411 which was deposited in court to settle an insurance claim made by Gerdau Açominas. The insurer pleads uncertainty in relation to whom payment should be made and alleges that the Company is resisting in receiving and settling it. The lawsuit was contested by both the bank (which claimed having no right over the amount deposited, solving the question raised by Sul América) and the Company (which claimed inexistence of uncertainty and justification to refuse the payment, since the amount owed by Sul América is higher than stated). After this pleading, Sul América claimed fault in the bank's representation, and this matter is therefore already settled, which resulted collection by Gerdau Açominas in December 2004 of the amount deposited by the insurer. Gerdau Açominas has also claimed on a judicial proceeding the amount recognized by the insurers, previous to the civil lawsuit commented above. These proceedings are included in the main lawsuit, and the Company expects to be successful with this claim.

The civil lawsuits arise from the accident on March 23, 2002 with the blast furnace regenerators of the Presidente Arthur Bernardes mill, which resulted in stoppage of several activities, material damages to the steel mill equipment and loss of profits. The equipment, as well as loss of profits arising from the accident, was covered by an insurance policy. The report on the event, as well as the loss claim was filed with IRB - Brasil Resseguros S.A., and the Company received an advance of $35,003 during 2002.

In 2002, a preliminary estimate of indemnities related to the coverage of loss of profits and material damages, in the total amount of approximately $62,101, was recorded, based on the amount of fixed costs incurred during the period of partial stoppage of the steel mill and on the expenses incurred to recover the equipment temporarily. This estimate is close to the amount of the advance received, plus the amount proposed by the insurance company as a complement for settling the indemnity. Subsequently, new amounts were added to the discussion, as demonstrated in the Company's appeal, although they were not accounted for as well as other costs to recover damage caused by the accident. When confirmed, those gains will be recorded in the financial statements. The suit meets with the engineering and accounting skills in progress, when the pointed value will be demonstrated judicially by the Company.

Based on the opinion of its legal advisors, management considers that losses from other contingencies are remote, and that eventual losses would not have a material adverse effect on the consolidated results of operations, consolidated financial position of the Company or its future cash flows.

16.2 Environmental liabilities

As Gerdau main business is the manufacturing of steel, it produces and uses certain substances that may pose environmental hazards. The principal hazardous waste generated by current and past operations is electric arc furnace ("EAF") dust, a residual from the production of steel in electric arc furnaces. Environmental legislation and regulation at both the federal and state level over EAF dust is subject to change, which may change the cost of compliance. While EAF dust is generated in current production processes, such EAF dust is being collected, handled and disposed of in a manner that the Gerdau believes meets all current federal, state and provincial environmental regulations. The costs of collection and disposal of EAF dust are expensed as operating costs when incurred. In addition, its subsidiary Gerdau Ameristeel has handled and disposed of EAF dust in other manners in previous years, and is responsible for the remediation of certain sites where such dust was generated and/or disposed.

In general, Gerdau Ameristeel's estimate of remediation costs is based on its review of each site and the nature of the anticipated remediation activities to be undertaken. Gerdau Ameristeel's process for estimating such remediation costs includes determining for each site the expected remediation methods, and the estimated cost for each step of the remediation. In such determinations, Gerdau Ameristeel may employ outside consultants and providers of such remedial services to assist in making such determinations. Although the ultimate costs associated with the remediation are not known precisely, Gerdau Ameristeel estimated the present value of total remaining costs to be approximately $15,500 and $22,200 as of December 31, 2007 and 2006, respectively. Of the $15,500 of costs recorded as "Other current liabilities" at December 31, 2007, Gerdau Ameristeel expects to pay approximately $3,700 during the year ended December 31, 2008.

Based on past use of certain technologies and remediation methods by third parties, evaluation of those technologies and methods by Gerdau Ameristeel's consultants and third-party estimates of costs of remediation-related services provided to Gerdau Ameristeel of which Gerdau Ameristeel and its consultants are aware, Gerdau Ameristeel believes that its cost estimates are reasonable. Considering the uncertainties inherent in determining the costs associated with the clean-up of such contamination, including the time periods over which such costs must be paid, the extent of contribution by parties which are jointly and severally liable, and the nature and timing of payments to be made under cost sharing arrangements, there can be no assurance the ultimate costs of remediation may not differ from the estimated remediation costs.

In April 2001, Gerdau Ameristeel was notified by the Environmental Protection Agency ("EPA"), of an investigation that identifies Gerdau Ameristeel as a potential responsible party ("PRP") in a Superfund Site in Pelham, Georgia. The Pelham site was a fertilizer manufacturer in operation from 1910 through 1992, lastly operated by Stoller Chemical Company, a now bankrupt corporation. The EPA filed suit under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") with Gerdau Ameristeel named as a defendant seeking damages of $16,600. CERCLA imposes joint and several strict liabilities in connection with environmental contamination. In May 2007, the Gerdau Ameristeel paid the EPA $7,250 to settle the claim.

During 2006, Gerdau Açominas and Gerdau Aços Longos, Brazilian subsidiaries of the Company, have evaluated 7 of its operating sites regarding potential environmental impacts caused by past operations. The Company has concluded that its past operations may have caused environmental damage, mainly due to use and disposal of hazardous substances, and may be required by legal authorities to remedy those environmental damages in the future. Based on assumptions of the extent of the potential damage caused and on the time of the remediation process, the Company has made estimates to determine the amounts involved on data collection, investigation and determination of the actual environmental impact of the areas potentially impacted by its operations. Such estimates amounts to $16.532 as of December 31, 2007 ($13,655 as of December 31, 2006), and were recorded under "Other non-current liabilities". Those amounts may vary in the future, depending on the development of the research and finishing of the damage impact studies.

The Company believes to be in compliance with all the required environmental regulations on the countries which steel operations are conducted.

16.3 Other Claims

In the normal course of its business, various lawsuits and claims are brought against the Company. The Company vigorously contests any claim which it believes is without merit. Management believes that any claims will not have a material effect on the financial position, consolidated earnings or the cash flows of the Company.

16.4 Other Commitments

The Company has the following long-term contracts with suppliers:

Operations in Brazil

The agreements establish minimum quantities and maximum quantities to be supplied by the third parties and purchased by us for iron ore, coal, energy (electricity and gas) and industrial gases.

Purchase price is determined as follows: (i) prices are adjusted on an annual basis by the supplier of iron ore and coal based on changes in prices in the international markets, (ii) electricity prices are set by the electric energy regulator for contracts in plants where we are "Captive consumers" as defined for electric regulatory purposes (ii) energy prices have been originally negotiated between Gerdau and the electricity generator company and annually adjusted based on contractual indexes in plants where we are "Free Consumers", (iii) gas prices are established by the gas regulator for natural gas purchased, and (iv) industrial gas prices have been originally negotiated between Gerdau and the supplier and adjusted on an annual basis based on a contractually agreed formula based on price indexes. Under current regulatory rules the Company may choose to change the electric generator company and the gas distribution company once the term of the existing agreements expires.

(in thousands of U.S. Dollars, unless otherwise stated)

Operations in North America

Most of the Company's mini-mill in North America has long-term supply contracts with either major utilities or energy suppliers. The electric supply contracts typically have two components: a firm portion and an interruptible portion. The firm portion supplies a base load for the rolling mill and auxiliary operations. The interruptible portion supplies the electric arc furnace power demand, which represents the majority of the total electric demand and, for the most part, is based on spot market prices of electricity.

16.5 Operating leases

Gerdau Ameristeel leases certain equipment and real property in North America under non-cancelable operating leases. Aggregate future minimum payments under these leases are as follows:

Year Ending December 31,	Amount
2008	12,269
2009	10,311
2010	9,171
2011	8,648
2012	7,114
Thereafter	25,376
	72,889

Rent expense related to operating leases was $28,200 and $30,200 for the years ended December 31, 2007 and 2006, respectively.

Certain of the operating lease commitments of the former Co-Steel entities were at lease rates in excess of fair value as of the acquisition date. Accordingly, a purchase accounting liability was recorded by the Company for the present value of the unfavorable lease commitments.

16.6 Vendor financing

Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos provide guarantees to Banco Gerdau S.A. that finance sales to selected customers. These sales are recognized at the time the products are delivered. Under the vendor program, the Company is the secondary obligor to the bank. At December 31, 2007 and 2006 customer guarantees provided by the Company totaled $30,399 and $9,399 respectively. Since Banco Gerdau S.A., Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos are under the common control of MG, this guarantee is not covered by the recognition provisions of FASB Interpretation No 45 ("FIN 45").

17 Shareholders' equity

17.1 Share capital

As of December 31, 2007, 231,607,008 shares of Common stock and 435,986,041 shares of Preferred stock had been issued. The share capital of the Company is comprised of Common shares and Preferred shares, all without par value. The authorized capital of the Company is comprised of 400,000,000 Common shares and 800,000,000 Preferred shares. Only the Common shares are entitled to vote. There are no redemption provisions associated with the Preferred shares. The Preferred shares have preferences in respect of the proceeds on liquidation of the Company.

(in thousands of U.S. Dollars, unless otherwise stated)

At a meeting of shareholders held on March 31, 2006, shareholders approved a bonus to both common and preferred shareholders of 50 shares per 100 shares held with the stock bonus made effective on April 12, 2006. On the same date the Company increased capital with capitalization of reserves, in the total amount of $1,220,231 ($796,898 for preferred shares and $423,333 for common shares). Preferred shares and common shares resulting from the capitalization were issued through the stock bonus referred above.

On December 31, 2007, the Company held in treasury 4,966,651 preferred shares at a cost of $44,778 (5,103,345 preferred shares at cost of $46,010 in December 31, 2006 and 3,045,695 preferred shares at cost of $21,951 in December 31, 2005).

The following sets forth the changes in the number of the Gerdau's shares from January 1, 2005 through December 31, 2007:

	Common Shares	Preferred Shares	Treasury Stock - Preferred
Balances as of January 01, 2005	102,936,448	193,771,574	1,573,200
Shares issued as a result of stock bonus	51,468,224	96,885,787	786,600
Acquisition of treasury stock	—	—	740,200
Employee stock options exercised	—	—	(54,305)
Balances as of December 31, 2005	154,404,672	290,657,361	3,045,695
Shares issued as a result of stock bonus	77,202,336	145,328,680	1,522,850
Acquisition of treasury stock	—	—	2,358,700
Employee stock option exercised	—	—	(1,823,900)
Balances as of December 31, 2006	231,607,008	435,986,041	5,103,345
Employee stock option exercised	—	—	(136,694)
Balances as of December 31, 2007	231,607,008	435,986,041	4,966,651

17.2 Legal reserve

Under Brazilian law, Gerdau is required to transfer 5% of annual net income, determined in accordance with Brazilian Corporate Law and based on the statutory financial statements prepared under Brazilian GAAP, to a legal reserve until such reserve equals 20% of paid-in capital. The legal reserve may be utilized to increase capital or to absorb losses, but cannot be used for dividend purposes.

17.3 Statutory reserve

The Board of Directors may propose to the shareholders to transfer at least 5% of net income for each year to a statutory reserve (*Reserva de Investimentos e Capital de Giro* – Reserve for investments and working capital). The reserve will be created only if it does not affect minimum dividend requirements and its balance may not exceed the amount of paid in-capital. The reserve may be used for absorbing losses, if necessary, for capitalization, for payment of dividends or to repurchase shares.

(in thousands of U.S. Dollars, unless otherwise stated)

On April 12, 2006, an amount of R$2,603,484 thousand (equivalent to $1,009,319 at the exchange rate of April 12, 2006) recorded as of December 31, 2005 as part of a statutory reserve within Retained earnings was capitalized.

On April 11, 2005, an amount of R$1,735,657 thousand (equivalent to $673,178 at the exchange rate of April 11, 2005), recorded as of December 31, 2004 as part of a statutory reserve within Retained earnings was capitalized.

17.4 Dividends

Brazilian law permits the payment of cash dividends from retained earnings calculated in accordance with the provisions of the Brazilian Corporate Law and as presented in the statutory accounting records. As of December 31, 2007, retained earnings in the statutory accounting records correspond to the balance of the statutory reserve described in Note 17.3 above which amounts in the statutory records of the Gerdau to $1,730,747 (translated at the year-end exchange rate).

Aggregate dividends paid and declared and interest on capital paid by Gerdau are as follows:

	2007	2006	2005
Common shares	147,455	135,747	155,882
Preferred shares	274,376	253,339	290,930
Total	421,831	389,086	446,812

As of December 31, 2007 the dividends paid and declared amount to $181,049 and interest on capital paid amount to $240,782.

18 Accounting for income taxes

18.1 Analysis of income tax expense

Income tax payable is calculated as required by the tax laws of the countries in which Gerdau and its subsidiaries operate.

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006	2005
Current tax (benefit) expense:			
Brazil	170,406	207,595	204,773
United States	213,334	199,473	125,717
Canada	1,937	(2,290)	1,099
Spain	(5,515)	302	—
Chile	16,306	13,644	10,026
Colombia	2,669	13,917	1,874
Mexico	2,665	—	—
Peru	10,533	4,363	—
Venezuela	4,273	—	—
Other countries	2,634	5,012	4,056
	419,242	442,016	347,545
Deferred tax (benefit) expense:			
Brazil	38,737	15,051	97,818
United States	15,945	(6,224)	15,385
Canada	11,759	6,870	1,871
Spain	50,018	(12,990)	—
Chile	(3,801)	(5,650)	6,964
Colombia	(751)	3,637	4,998
Mexico	1,904	—	—
Peru	(2,864)	(1,235)	—
Other Countries	171	(2,574)	(9,286)
	111,118	(3,115)	117,750
Income tax expense	530,360	438,901	465,295

18.2 Income tax reconciliation

A reconciliation of the income taxes in the statement of income to the income taxes calculated at the Brazilian statutory rates follows:

	2007	2006	2005
Income before taxes and minority interest	2,679,232	2,361,727	1,761,725
Brazilian composite statutory income tax rate	34%	34%	34%
Income tax at Brazilian income tax rate	910,939	802,987	598,987
Reconciling items:			
Foreign income having different statutory rates	(23,941)	(76,590)	11,388
Non-deductible expenses net of non-taxable income	(76,482)	(27,116)	(3,223)
Changes in valuation allowance	(1,691)	2,316	3,570
Benefit of deductible interest on equity paid to shareholders in Brazil	(95,336)	(75,360)	(1,231)
Tax deductible goodwill from restructuring recorded on statutory books	(144,142)	(128,667)	(76,664)
Tax credits obtained in the Spanish subsidiaries	—	(38,703)	—
Tax exempt income in North America	(36,704)	(25,024)	(24,520)
Other, net	(2,283)	5,058	(43,012)
Income tax expense	530,360	438,901	465,295

(in thousands of U.S. Dollars, unless otherwise stated)

18.3 Tax rates

Tax rates in the principal geographical areas in which the Company operates are presented below. Rates for Peru, Spain, México and Venezuela are presented only for the years when companies located in those countries have been consolidated by the Company:

	2007	2006	2005
Brazil			
Federal income tax	25.00%	25.00%	25.00%
Social contribution tax	9.00%	9.00%	9.00%
Composite federal income tax rate	34.00%	34.00%	34.00%
United States			
Composite federal and state income tax (approximate)	39.00%	39.00%	39.00%
Canada			
Federal income tax	22.12%	22.12%	22.12%
Provincial rate (approximate)	12.00%	12.00%	12.00%
Composite income tax rate	34.12%	34.12%	34.12%
Chile			
Federal income tax	17.00%	17.00%	17.00%
Argentina			
Federal income tax	35.00%	35.00%	35.00%
Colombia			
Federal income tax	34.00%	38.50%	35.00%
Peru			
Federal income tax	30.00%	30.00%	
Spain			
Federal income tax	28.00%	32.60%	
México			
Federal income tax	28.00%		
Venezuela			
Federal income tax	34.00%		

18.4 Analysis of tax balances

The composition of the deferred tax assets and deferred tax liabilities are presented below. Current assets and liabilities and non current assets and liabilities in the table below are presented net of each tax paying entity.

(in thousands of U.S. Dollars, unless otherwise stated)

	2007	2006
Deferred tax assets		
Property plant and equipment	171,303	176,505
Net operating loss carryforwards	140,813	98,446
Valuation allowance on net operating loss carryforwards	(47,624)	(41,866)
Accrued pension costs	76,257	112,290
Accounting provisions not currently deductible	278,956	139,154
Other	9,694	33,408
Gross deferred income tax assets	629,399	517,937

	2007	2006
Deferred tax liabilities		
Exchange gains taxable on a cash basis	96,311	34,826
Deferred income not currently taxable	95,082	30,682
Prepaid pension benefits	120,111	82,763
Property plant and equipment	809,185	563,715
Intangible assets	236,212	7,787
Gross deferred income tax liabilities	1,356,901	719,773
Net deferred tax liabilities	727,502	201,836

	2007	2006
Deferred tax balances		
Deferred tax assets – current	43,734	51,730
Deferred tax assets - non-current	137,650	187,710
	181,384	239,440
Deferred tax liabilities – current	55,758	25,230
Deferred tax liabilities - non-current	853,128	416,046
	908,886	441,276

As of December 31, 2007, the Company has total loss carryforwards for its operations in Brazil amounting to $144,027 for income tax and to $120,957 for social contribution, representing a deferred tax asset of $67,188. The Company believes it is more likely than not that tax loss carryforwards will be realized based on future taxable income from operations, except for a portion of $43,429, which was provided for a valuation allowance, due to lack of tax planning for use of those carryforwards losses existing in a Brazilian holding company. Those carryforward losses do not have a final expiry date.

As of December 31, 2007, Gerdau Ameristeel recognized deferred tax assets for tax loss carryforwards amounting to $56,371. Gerdau Ameristeel had as of such date a combined non-capital loss carryforwards of approximately $80,600 for Canadian tax purposes that expires on various dates between 2008 and 2027. Gerdau Ameristeel also had a combined net operating loss carryforwards of approximately $492,800 for U.S. federal and state income tax purpose that expires on various dates between 2010 and 2027. The Company believes its Canadian operations net deferred tax asset at December 31, 2007 of $12,400 is more likely than not to be realized based on the combination of future taxable income from operations and various tax planning strategies that will be implemented, if necessary. During 2007, Gerdau Ameristeel released a valuation allowance of $1,691 and recorded a valuation allowance of $2,316 in 2006. The valuation allowance release in 2007 relates to certain state tax loss carryforwards and recycling credits that management determined that is more likely than not that these deferred tax assets would not be realized.

(in thousands of U.S. Dollars, unless otherwise stated)

Some of the NOL (Net Operating Loss) carryforwards are subject to annual limitations as outlined in Internal Revenue Code (IRC) S. 382 and IRC S. 1502, Separate Return Limitation Year provisions. Gerdau Ameristeel believes it is more likely than not that it will be able to realize the benefit of these losses subject to the annual limitations and, therefore, no valuation reserve has been recorded.

18.5 Adoption of FIN 48

The Company adopted the provisions of FIN (FASB Interpretation) No. 48, "Accounting for Uncertainty in Income Taxes" on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. As of December 31, 2007, the Company had $27,027 of unrecognized tax benefits, of which $21,954 would, if recognized, decrease the Company's effective tax rate. There have been no material changes to these amounts during the twelve months ended December 31, 2007. The Company does not expect any significant increases or decreases to the unrecognized tax benefits within the next 12 months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2007
Balance as of January 1, 2007	**30,602**
Tax positions related to current year:	
Gross additions	1,667
Tax positions related to prior year:	
Gross additions	1,427
Gross reductions	(8,051)
Lapses in statute of limitations	(4,011)
UTBs acquired in a business combination	3,457
Changes due to translation of foreign currency	1,936
Balance as of December 31, 2007	**27,027**

As a result of the implementation of FIN 48, the Company recorded a net decrease to retained earnings of $2,861 related to the Company's reliance on Canadian proposed legislation. On December 14, 2007, the Canadian government enacted its proposed legislation which decreased the Company's unrecognized tax benefit by $8.1 million in the fourth quarter of 2007.

The Company has also reclassified an amount of $10,727 related to tax contingencies from "Provision for contingencies" to "Other non-current liabilities" as of December 31, 2007. Such amounts are related to income taxes benefits previously recorded on its tax books, but for which Company considered as a probable loss contingency. These same contingencies were not reclassified for the year ended December 31, 2006. Such contingencies amounted to $12,759 as of December 31, 2006.

The Company's continuing practice is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. As of December 31, 2007 the Company had approximately $1,914 of accrued interest and penalties related to its uncertain tax positions. During 2007, the Company recorded an expense of $1,914 related to this uncertain tax positions.

The Company has several different tax years open to examinations, since each fiscal authority of each country in which the Company operates has different timing for tax examinations. In most cases, the years from 2002 to 2007 remains open for tax examinations. In the United States and Spain, the years from 2004 to 2007 remains open for tax examinations. In Brazil, the years from 2002 to 2007 remains open for tax examinations.

19 Earnings per share (EPS)

Pursuant to SFAS No. 128, the following tables reconcile net income to the amounts used to calculate basic and diluted EPS.

Year ended December 31, 2007

	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Dividends (interest on equity) declared	147,455	274,376	421,831
Allocated undistributed earnings	417,614	777,076	1,194,690
Allocated net income available to Common and Preferred shareholders	565,069	1,051,452	1,616,521
Basic denominator			
Weighted-average outstanding shares	231,607,008	430,963,351	
Earnings per share (in $) – Basic	2.44	2.44	

Diluted numerator
Allocated net income available to Common and Preferred shareholders

Net income allocated to preferred shareholders	1,051,452
Add:	
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau	5,486
	1,056,938
Net income allocated to common shareholders	565,069
Less:	
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau	(5,486)
	559,583

Diluted denominator **Weighted - average number of shares outstanding**	
Common Shares	231,607,008
Preferred Shares	
Weighted-average number of preferred shares outstanding	430,963,351
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,190,882
Potential issuable preferred shares with respect to option to settle acquisition of additional interest in Diaco in shares of the Company	3,597,062
Total	436,751,295
Earnings per share – Diluted (Common and Preferred Shares)	2.42

Year ended December 31, 2006

	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Dividends (interest on equity) declared	135,747	253,339	389,086
Allocated undistributed earnings	392,401	732,321	1,124,722
Allocated net income available to Common and Preferred shareholders	528,148	985,660	1,513,808
Basic denominator			
Weighted-average outstanding shares after deducting the average treasury shares (Note 17.1) and stock bonus (Note 17.1)	231,607,008	432,238,895	
Earnings per share (in $) – Basic	2.28	2.28	

Diluted numerator **Allocated net income available to Common and Preferred shareholders**	
Net income allocated to preferred shareholders	985,660
Add:	
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco and option granted to minority shareholders of Sipar to sell their shares to Gerdau	7,025
	992,685
Net income allocated to common shareholders	528,148
Less:	
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco and option granted to minority shareholders of Sipar to sell their shares to Gerdau	(7,025)
	521,123

Diluted denominator **Weighted - average number of shares outstanding**	
Common Shares	231,607,008
Preferred Shares	
Weighted-average number of preferred shares outstanding	432,238,895
Potential increase in number of preferred shares outstanding in respect of stock option plan	1,551,118
Potential issuable preferred shares with respect to option to settle additional acquisiton of Diaco in shares of the Company (Note 4.v)	4,212,371
Option granted to minority shareholders of Sipar to sell their shares to Gerdau (Note 4.w)	1,238,621
Total	439,241,004
Earnings per share – Diluted (Common and Preferred Shares)	2.26

Year ended December 31, 2006

	Common	Preferred	Total
	(in thousands, except share and per share data)		
Basic numerator			
Dividends (interest on equity) declared	155,882	290,930	446,812
Allocated undistributed earnings	234,027	436,682	670,709
Allocated net income available to Common and Preferred shareholders	389,909	727,612	1,117,521
Basic denominator			
Weighted-average outstanding shares after deducting the average treasury shares (Note 17.1) and stock bonus (Note 17.1)	231,607,008	432,165,971	
Earnings per share (in $) – Basic	1.68	1.68	

Diluted numerator **Allocated net income available to Common and Preferred**	
Net income allocated to preferred shareholders	727,612
Add:	
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred	2,138
	729,750
Net income allocated to common shareholders	389,909
Less:	
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred	(2,138)
	387,771

(in thousands of U.S. Dollars, unless otherwise stated)

Diluted denominator	
Weighted - average number of shares outstanding	
Common Shares	231,607,008
Preferred Shares	
Weighted-average number of preferred shares outstanding	432,165,971
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,265,290
Potential issuable preferred shares with respect to option to settle acquisition of additional interest in	890,420
Option granted to minority shareholders of Sipar to sell their shares to Gerdau (Note 4.w)	533,371
Total	435,855,052
Earnings per share – Diluted (Common and Preferred Shares)	1.67

20 Fair value of financial instruments

Pursuant to SFAS No. 107, “Disclosures About Fair Value of Financial Instruments”, the Company is required to disclose the fair value of financial instruments, including off-balance sheet financial instruments, when fair values can be reasonably estimated.

The fair value of the Senior Notes issued by Gerdau Ameristeel was $427,850 and $437,679 as of December 31, 2007 and 2006, respectively. The carrying amount was $400,819 and $397,512, as of December 31, 2007 and 2006, respectively. Fair values of debt issued by Gerdau Ameristeel were estimated based on quoted market prices from the trading desk of an investment bank.

The fair value of Guaranteed Perpetual Senior Securities issued by Gerdau S.A. was $625,266 and $642,750 as of December 31, 2007 and 2006, based on quotations in the secondary market for this security. The carrying amount was $600,000 as of December 31, 2007 and 2006.

The fair value of Ten-Year bond Securities issued by GTL Trade Finance Inc. was $1,010,680 as of December 31, 2007, based on quotations in the secondary market for this security. The carrying amount was $1,000,000 as of December 31, 2007.

The fair value of short-term investments classified as “Held to Maturity” was $140,960 as of December 31, 2006, and was determined using present values techniques applying the year-end market interest rates. The carrying amount was $138,200 as of December 31, 2006.

Short-term investments classified as “Trading” and “Available for Sale” are recorded at fair value as of December 31, 2007 and 2006.

Derivative instruments are recorded at fair value as of December 31, 2007 and 2006.

The Company’s estimate of the fair value of the other financial instruments, which include receivables, accounts payable and long-term debt, approximates the carrying amount.

21 Derivative instruments

The use of derivatives by the Company is limited. Derivative instruments are used to manage clearly identifiable foreign exchange and interest rate risks arising out of the normal course of business.

Operations with derivative financial instruments

As part of its normal business operations, Gerdau and operations in Brazil have obtained U.S. dollars denominated debt at fixed rates which exposes them to market risk from changes in foreign exchange and interest rates. Changes in the rate of the Brazilian real against the U.S. dollar expose Gerdau and operations in Brazil to foreign exchange gains and losses which are recognized in the statement of income and also to changes in the amount of Brazilian *reais* necessary to pay such U.S. dollar denominated debt. Changes in interest rates on their fixed rate debt expose Gerdau and operations in Brazil to changes in fair value on its debt. In order to manage such risks, Gerdau and operations in Brazil is used to enter into derivative instruments, primarily swap contracts linking foreign currencies to interest rates. Under the swap contracts Gerdau and operations in Brazil have the right to receive on maturity U.S. dollars plus accrued interest at a fixed rate and have the obligation to pay Brazilian *reais* at a variable rate based on the CDI rate.

Although such instruments mitigate the foreign exchange and interest rate risks, they do not necessarily eliminate them. The Company generally does not hold derivative instruments for trading purposes.

All swaps have been recorded at fair value and realized and unrealized losses are presented in the consolidated statement of income under “Losses on derivatives, net”.

Gerdau Açominas entered into interest rate swaps where it receives a variable interest rate based on LIBOR and pays a fixed interest rate in U.S. dollars. The agreements have a notional value of $275,125 and expiration date between June 15, 2010 and November 30, 2011. The aggregate fair value of this interest rate swap, which represents the amount that would be received if the agreements were terminated at December 31, 2007, is a net loss of $3,329 (net gain of $4,826 at December 31, 2006).

Gerdau Açominas also entered on a reverse swap where it receives a fixed interest rate in U.S. dollars and pays a variable interest rate based on Japanese Libor in Japanese yens, with a notional amount of $267,000. This swap has a final maturity date on March 24, 2016. The aggregate fair value of this swap, which represents the amount that would be paid if the agreements were terminated at December 31, 2007, is a net gain of $871 (net loss of $8,363 at December 31, 2006).

Gerdau Açominas also entered on a swap where it receives a variable amount of interest based on Japanese Libor in Japanese yens, and pays a fixed interest rate in U.S. dollars, with a notional amount of $257,903. This swap has a final maturity date on March 31, 2015. The aggregate fair value of this swap, which represents the amount that would be received if the agreements were terminated at December 31, 2007, is a net loss of $485 (net gain of $1,797 at December 31, 2006).

In Gerdau Aços Longos, there are no swaps outstanding as of December 31,2007. The notional amount of swaps amounted $91,207 as of December 31, 2006. There are no unrealized gains or losses as of December 31, 2007 and unrealized net losses amounted $279 as of December 31, 2006.

In GTL Equity Investments Corp., there are no swaps or put options outstanding as of December 31, 2007. The notional amount of swaps and put options amounted $32,605 as of December 31, 2006. There are no unrealized gains or losses as of December 31, 2007 and unrealized net gains amounted $2,564 as of December 31, 2006.

Operations in South America

The Company has granted options to the minority shareholders of Sipar Aceros S.A. as part of the purchase agreements of that company by which those shareholders may sell their shares in Sipar Aceros S.A. and settlement can be made (at the option of the Company or of the shareholders depending on the agreement) either in cash or in shares of Gerdau. Such options were exercised in the last quarter of 2007; as a result, the Company has paid an amount of $11,100 and represented a 9% interest increase in Sipar Aceros S.A.. The Company has a commitment to acquire an additional interest in Diaco which can be settled at the option of the counterparty either in cash or in shares of Gerdau;

such commitment is accounted for at its estimated fair value, in the amount of $85,758, recorded under Other non-current assets ($62,164 as of December 31, 2006).

Empresa Siderúrgica del Peru S.A.A. - Siderperu has entered on a swap where it receives a variable amount of interest based on LIBOR of three months and pays a fixed interest rate in U.S. dollars. This swap has a notional amount of $75,000 and a final maturity date on April 30, 2014. The aggregate fair value of this swap, which represents the amount that would be received if the agreements were terminated at December 31, 2007, is a net loss of $1,429.

Operations in North America

In order to reduce its exposure to changes in the fair value of its Senior Notes, Gerdau Ameristeel entered into interest rate swaps subsequent to the refinancing of its debt. The agreements have a notional value of $200,000 and expiration dates of July 15, 2011. Gerdau Ameristeel receives a fixed interest rate and pays a variable interest rate based on LIBOR. The aggregate mark-to-market (fair value) of the interest rate agreements, which represents the amount that would be paid if the agreements were terminated at December 31, 2007, is a net loss of $4,844 (net loss of $3,390 at December 31, 2006).

Options on minority interest in consolidated subsidiaries

On January 10, 2006 the Company concluded the acquisition of 40% of Corporación Sidenor S.A. (“Sidenor”), a Spanish steel producer with operations in Spain and Brazil (Aços Villares S.A. – “Aços Villares”). The Santander Group, a Spanish financial conglomerate, and an entity owned by executives of Sidenor contemporaneously acquired 40% and 20% of Sidenor, respectively. Purchase price for the acquisition of 100% of Sidenor consists of a fixed price of €443,820 plus a variable contingent price which is payable only by the Company. The fixed price paid by the Company on January 10, 2006 for its 40% interest in Sidenor amounted to €165,828 ($236,597). Santander Group holds a put option to sell their interest in Sidenor to the Company, after 5 years from the purchase, at a fixed price plus accrued interests computed using a fixed interest rate. The Company has agreed to guarantee to the Santander Group the payment of an agreed amount (equal to the fixed price under the put option referred to above plus accrued interest computed using the same fixed interest rate) after 6 years from the purchase in the event that Santander Group has not sold the shares acquired up to such date or, if the Santander Group sells its interest at a price higher or lower than the agreed amount the difference will be paid by Santander Group to the Company or by the Company to Santander Group, respectively. The guarantee may be exercised by the Santander Group at any time after 6 years. The Company’s obligation to purchase from Santander Group its 40% interest in Corporación Sidenor is recorded in Minority Interest. As of December 31, 2007, such obligation amounts to $266,176.

During 2007, the subsidiary Gerdau Aços Especiais has reached an agreement with BNDES Participações S.A. (“BNDESPAR”), which is the largest minority shareholder of Aços Villares S.A. (“Villares”). This agreement provides BNDESPAR a put option to sell its stake of 28.8% in Villares to the Company, for a determinable price. Such price was determined to be the higher of: (a) the offering price included in the public offering the Company has made when the acquisition of Corporación Sidenor was completed last year, plus interest of TJLP + 4% p.a., less any dividends paid by Villares capitalized on the same interest, or (b) the price per share of the public offering divided by 130% of the price of Gerdau S.A. shares, which result in a total quantity of options to BNDESPAR. At the end of fifth year of the contract, BNDESPAR has the higher option between (a) or (b) above. From the fifth and up to the seventh year, the option is still outstanding, but the price is only the one described on (a) above. As of December 31, 2007, this put option has no market value, because the underlying asset has a market quotation significantly higher than any of the exercise prices described in (a) and (b) above. Therefore, no liability was recorded regarding this put option as of December 31, 2007.

22 Concentration of credit risks

The Company’s principal business is the production and sale of long ordinary steel products, including crude steel, long rolled products, such as merchant bars and concrete reinforcing bars used in the construction industry; drawn products, such as wires and meshes; and long specialty steel products, such as tool steel and stainless steel. Approximately 98% of the Company’s sales during 2007 were made to civil construction and manufacturing customers.

Approximately 42.1% of the Company’s consolidated sales came from Brazilian companies and 36.7% from companies in the United States and Canada and the remainder split between sales by its subsidiaries located in other countries.

No single customer of the Company accounted for more than 10% of net sales, and no single supplier accounted for more than 10% of purchases in any of the years presented. Historically, the Company has not experienced significant losses on trade receivables.

23 Segment information

The Gerdau Executive Committee is comprised by the most senior officers of the Company and is responsible for managing of the business.

The Company’s’ reportable segments under SFAS No. 131 “Disclosures About Segments of an Enterprise and Related Information” correspond to the business units through which the Gerdau Executive Committee manages its operations: long steel products in Brazil, specialty steel products in Brazil and in Europe, Açominas (corresponding to the operations of the former Açominas carried out through the mill located in Ouro Branco, Minas Gerais), Latin America (which excludes the operations in Brazil) and North America.

Identifiable assets are trade accounts receivable, inventories, property, plant and equipment, goodwill and intangible assets. Identifiable assets originally presented for the years ended December 31, 2006 and 2005 were trade accounts receivable, inventories and property, plant and equipment. During 2007, the Company entered into relevant acquisitions of companies, particularly Chaparral Steel, which resulted in a recognition of significant amounts of goodwill and intangible assets. As a result of these acquisitions the Gerdau Executive Committee included goodwill and intangible assets in the identifiable assets as from the fourth quarter of 2007 with the objective of analyzing the relevant goodwill and intangible assets acquired in the 2007 acquisitions. For comparative purposes the corresponding information as of December 31, 2006 and 2005 has been modified with respect to the original information presented in order to use the same criteria used in 2007.

(in thousands of U.S. Dollars, unless otherwise stated)

Year ended December 31, 2007

	Long Brazil	Açominas Ouro Branco	Specialty Steel	Latin America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	4,212,822	1,747,231	1,739,680	1,989,378	6,555,973	(766,504)	15,478,580	335,937	15,814,517
Financial income (expenses), net	477,447	(110,504)	(57,436)	(26,876)	(87,271)	—	195,360	(116,328)	79,032
Net income	527,128	241,293	192,280	187,197	476,132	—	1,624,030	(7,509)	1,616,521
Capital expenditures	155,441	746,936	194,007	630,581	4,436,827	—	6,163,792	(36,793)	6,126,999
Depreciation and amortization	152,145	185,042	80,879	49,809	195,271	—	663,146	25,157	688,303
Identifiable assets	2,948,900	3,444,659	1,136,767	1,810,723	7,455,008	(263,691)	16,532,366	1,429,842	17,962,208

Year ended December 31, 2006

	Long Brazil	Açominas Ouro Branco	Specialty Steel	South America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	3,588,995	1,435,394	1,133,125	1,088,325	5,020,794	(727,781)	11,538,852	305,378	11,844,230
Financial income (expenses), net	177,475	54,611	(34,663)	1,850	(48,789)	—	150,484	(3,068)	147,416
Net income	769,719	200,045	149,081	135,428	379,165	—	1,633,438	(119,630)	1,513,808
Capital expenditures	286,722	380,881	541,832	254,562	537,574	—	2,001,571	(318,713)	1,682,858
Depreciation and amortization	109,469	138,950	47,255	34,902	142,494	—	473,070	31,058	504,128
Identifiable assets	2,037,042	2,117,343	983,914	965,652	2,711,958	(66,091)	8,749,818	1,264,962	10,014,780

Year ended December 31, 2005

	Long Brazil	Açominas Ouro Branco	Specialty Steel	South America (except Brazil)	North America	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	2,668,631	1,145,417	457,143	510,142	4,295,332	9,076,665	(182,233)	8,894,432
Financial income (expenses), net	89,743	(42,949)	3,534	(9,756)	(53,352)	(12,780)	25,366	12,586
Net income	671,088	210,837	140,754	71,063	292,698	1,386,440	(268,919)	1,117,521
Capital expenditures	280,662	224,156	33,506	153,402	135,864	827,590	(50,826)	776,764
Depreciation and amortization	105,346	116,375	12,456	18,404	105,691	358,272	(56,510)	301,762
Identifiable assets	1,701,214	1,595,770	230,041	604,702	2,218,335	6,350,063	(242,260)	6,107,803

The segment information above has been prepared under Brazilian GAAP, which is the basis of presentation used for internal decision making. Corporate activities performed for the benefit of the Group as a whole are not separately presented and are included as part of the information of Long Brazil.

The main products by business segment are as follows:
Long Brazil: rebars, merchant bars, wire rod, profiles, and drawn products
Açominas Ouro Branco: billets, blooms, slabs, wire rod, and structural shapes
Specialty Steel: stainless steel, hot rolled flat, round and square bars, wire rod
Latin America.: rebars, merchant bars, and drawn products
North America.: rebars, merchant bars, wire rod, heavy and light structural shapes

The Adjustments and Reconciliations column include the effects of differences between the criteria followed under Brazilian GAAP and the criteria followed in the consolidated financial statements. The differences that have the most significant effects are:

- Segment information includes data from the joint ventures Gallatin Steel Company, Bradley Steel Processors and MRM Guide Rail and, since its acquisition in 2007, the entity Multisteel Business Holdings Corp. on a proportional consolidation basis, companies that are not included in the consolidated financial statements.

- Net sales are presented net of freight costs, while freight costs are presented as part of Cost of sales in the consolidated financial statements.

- Identifiable assets and depreciation and amortization in the segment information include property, plant and equipment which are presented on the basis of historical costs of acquisition, while in the consolidated financial statements they include the effects of property, plant and equipment acquired in business combinations at fair value.

- Derivative financial instruments are not fair valued in the segment information while they are recognized at fair value in the consolidated financial statements.

- Exchange gains and losses resulting from the translation of financial information of subsidiaries outside Brazil are recognized in income in the segment information while such effects are recognized directly in equity in the consolidated financial statements if the functional currency of the subsidiary is other than the Brazilian *reais*.

- As from the year 2006, the Company also presents in the column “Inter-Segment Elimination” the eliminations of inter-segment sales, considering the increased level observed in inter-segment sales has increased during this year. Inter-segment sales in prior years were immaterial.

- Proportional consolidation basis of 40% for the entity Corporación Sidenor S.A. while full consolidation basis was adopted in the consolidated financial statements.

(in thousands of U.S. Dollars, unless otherwise stated)

Geographic information about the Company, prepared following the same basis as the financial statements, is as follows with revenues classified by the geographic region from where the products have been shipped:

	Year ended December 31, 2007				
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	6,662,685	1,720,294	5,806,659	1,624,879	15,814,517
Long lived assets	5,656,113	860,875	5,719,218	862,538	13,098,744

	Year ended December 31, 2006				
	Brazil	South America (except Brazil)	North America	Europe	Total
Net sales	5,354,214	1,073,060	4,464,188	952,768	11,844,230
Long lived assets	3,886,733	347,733	1,539,524	762,295	6,536,285

	Year ended December 31, 2005			
	Brazil	South America (except Brazil)	North America	Total
Net sales	4,483,895	513,394	3,897,143	8,894,432
Long lived assets	2,325,507	245,073	1,283,856	3,854,436

Long lived assets include property, plant and equipment, equity investments, investments at cost, intangible assets and goodwill.

No information is presented for breakdown of revenue by major products as such information is not maintained on a consolidated basis by the Company, which has such information only in volume.

(in thousands of U.S. Dollars, unless otherwise stated)

24 Valuation and qualifying accounts

Year ended December 31, 2007

Description	Balance at beginning of year	Write-offs	Reclassification	Amounts recorded on Income Statement		Effect of exchange rate changes (a)	Business Combinations	Balances at end of year
				Charges to cost and expense	Reversals			
Provisions offset against assets balances:								
Allowance for doubtful accounts	35,278	(17,869)	—	9,325	(1,998)	4,219	1,351	30,306
Valuation allowance on deferred income tax assets	41,866	—	—	2,080	(3,771)	7,449	—	47,624
Reserves:								
Provision for contingencies	189,725	—	(10,727)	47,788	(2,077)	40,617	—	265,326

Year ended December 31, 2006

Description	Balance at beginning of year	Write-offs	Amounts recorded on Income Statement		Effect of exchange rate changes (a)	Business Combinations	Balances at end of year
			Charges to cost and expense	Reversals			
Provisions offset against assets balances:							
Allowance for doubtful accounts	34,504	(10,087)	8,968	(1,315)	2,537	671	35,278
Valuation allowance on deferred income tax assets	39,550	—	3,207	(891)	—	—	41,866
Reserves:							
Provision for contingencies	127,849	—	16,305	(8,395)	14,703	39,263	189,725

Year ended December 31, 2005

Description	Balance at beginning of year	Write-offs	Amounts recorded on Income Statement		Effect of exchange rate changes (a)	Balances at end of year
			Charges to cost and expense	Reversals		
Provisions offset against assets balances:						
Allowance for doubtful accounts	33,536	(105)	1,453	(4,316)	3,936	34,504
Valuation allowance on deferred income tax assets	35,980	—	3,570	—	—	39,550
Reserves:						
Provision for contingencies	87,718	—	57,387	(29,594)	12,338	127,849

(a) Includes the effect of exchange rates on balances in currencies other than the United States dollar.

The amount presented under “Reversals” with respect to provision for contingencies for the year ended December 31, 2005 correspond to a final non-appealable favorable decision by court regarding the monetary adjustment of PIS calculation under Complementary Law 07/70, due to the declarations of unconstitutionality of Decree Laws 2445/88 and 2449/88 on the last proceeding the Company had pending. Therefore, the Company has recorded a gain of $28,881 under “Other operating (expenses) income, net” in the statement of income.

25 Stock based compensation

25.1 Brazil Plan

The Company and its subsidiary Gerdau Ameristeel maintain stock based compensation plans. The Company accounts for the stock-based compensation plans as from January 1, 2006 under SFAS 123 – R ("SFAS 123(R)") "Shared-based payment". SFAS 123(R) addresses the accounting for employee stock options and eliminates the alternative use of the intrinsic value method of accounting that was provided in Statement 123 as originally issued. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (vesting period). The grant-date fair value of employee share options and similar instruments is estimated using option-pricing models adjusted to the unique characteristics of those instruments.

The Company has applied the modified prospective application method to account for the implementation of SFAS 123(R), which consists on recognizing costs of services rendered as from January 1, 2006 according to the grant-date fair value of stock options instruments, but does not require to restate previous year financial statements, and instead requires pro forma disclosures of net income and earnings per share for the effects on compensation had the grant-date fair value been adopted in prior periods. Under this transition method, compensation cost for stock options plans as from January 1, 2006, include the applicable amount of: (a) compensation cost for all share based instruments granted prior to, but not yet vested, as of January 1, 2006 (based on the grant-date fair value in accordance with the provisions of SFAS 123), and (b) compensation cost for all share based instruments granted after January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123(R)).

Through December 31, 2005, the Company applied the intrinsic value method established by Accounting Principles Board ("APB") Opinion Nº 25, "Accounting for Stock Issued to Employees" to account compensation for stock based compensation.

The Company and its subsidiary Gerdau Ameristeel have several stock based compensation plans. A brief summary of those plans is presented below:

Gerdau Plan

The Extraordinary Stockholders' General Meeting of Gerdau held on April 30, 2003 decided, based on a plan approved by an Annual Stockholders' meeting and up to the limit of authorized capital, to grant options to purchase shares to management, employees or individuals who render services to the Company or to entities under its control, and approved the creation of the "Long Term Incentive Program". Under the plan, the Board of Directors may grant options to purchase shares at an exercise price established by the Board of Directors and that can be exercised after a vesting period and up to 5 years after vested.

A summary of the Brazil Plan is as follows:

(in thousands of U.S. Dollars, unless otherwise stated)

	Year ended December 31, 2007		Year ended December 31, 2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	3,963,032	7.51	4,837,113	3.98
Shares issued in regards to share bonus				
Granted during the year	778,239	19.76	969,468	12.03
(-) Options forfeited	(101,768)	13.48	(19,649)	9.59
(-) Options exercised	(136,693)	8.05	(1,823,900)	2.61
Outstanding, end of year	4,502,810	10.84	3,963,032	7.51
Options exercisable	1,154,285		—	

The assumptions used for estimating the fair value of the options on the grant date during the year ended December 31, 2007 and 2006 following the Black & Scholes method were as follows:

	Granted during the year	
Assumptions for options granted during the year ended December 31:	**2007**	**2006**
Expected dividend yield	4.32%	9.99%
Expected stock price volatility	38.72%	41.51%
Risk-free rate of return	12.40%	12.80%
Expected years until exercise	4.90 years	4.87 years

	2007	2006
Proceeds from stock options exercised	990	4,411
Intrinsic value of stock options exercised	1,885	18,456

The weighted average grant date fair value of the stock options granted during the year ended December 31, 2007, 2006 and 2005 was $8.64, $4.05 and $2.38, respectively. The remaining unrecognized compensation cost related to unvested options at December 31, 2007 was approximately $9.0 million.

The following table summarizes information about options outstanding at December 31, 2007:

Exercise price range (US$)	Number outstanding	Weighted-average remainig contractual life	Number exercisable at December 31, 2007
$3.00	1,154,285	—	1,154,285
$7.66	676,918	1.75	—
$11.95	990,627	2.01	—
$14.52	929,278	3.01	—
$19.76	751,702	4.01	—
	4,502,810		1,154,285

At December 31, 2007 and 2006, the aggregate intrinsic value of shares outstanding and options expected to vest was $52,857 and $34,955, respectively. At December 31, 2007, the aggregate intrinsic value of options exercisable was $30,397. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Compensation expense recorded for the stock option issued by Gerdau S.A. accounted as per SFAS 123(R) resulted in a reduction in income from continuing operations (recorded under general and administrative expenses), net income before taxes and net income in the amount of $2,971 and $1,838, at December 31, 2007 and 2006, respectively. Stock based compensation does not have any tax effect, current or future, for Gerdau S.A. under Brazilian tax law, transactions settled in shares are not subject to taxation in Brazil, nor is recognized for tax purposes any compensation expense. The expense amounting of $2,971 and $1,838 was included in the computation of earnings per share and resulted in a decrease of $0.005 and $0.003 for both basic and diluted earnings per share, at December 31, 2007 and 2006, respectively.

25.2 Gerdau Ameristeel Plans

Gerdau Ameristeel has several stock based compensation plans, which are described below.

The long-term incentive plans are designed to reward Gerdau Ameristeel's senior management with bonuses based on the achievement of return on capital invested targets. Bonuses which have been earned are awarded after the end of the year in the form of cash, stock appreciation rights ("SARs"), and/or options. The portion of any bonus which is payable in cash is to be paid in the form of phantom stock. The number of shares of phantom stock awarded to a participant is determined by dividing the cash bonus amount by the fair market value of a Common Share at the date the award of phantom stock is made. The number of options awarded to a participant is determined by dividing the non-cash amount of the bonus by the fair market value of the option at the date the award of the options is made. The value of the options is determined by the Human Resources Committee of the Gerdau Ameristeel's Board of Directors based on a Black & Scholes or other method for determining option values. All of the long term incentive awards vest 25% on each of the first four anniversaries of the date of the award. Options and SARs may be exercised following vesting. Options and SARs have a maximum term of 10 years. The maximum number of options able to be granted under this plan is 6,000,000. An award of approximately $14,000 was earned by participants for the year ended December 31, 2004 and was granted in phantom shares on March 1, 2005. An award of approximately $3,000 was earned by participants in 2005 and was paid 50% in options and 50% in phantom stock. On March 20, 2006, Gerdau Ameristeel issued 202,478 options under this plan. An award of approximately $6,600 was earned by participants in 2006 and was paid 44% in SARs, 28% in options and 28% in phantom stock. On March 1, 2007, Gerdau Ameristeel issued 454,497 options under this plan. A grant of approximately $1,200 of SARs was provided to a participant in 2007. An award of approximately $8,300 was earned by participants in 2007 and was granted 44% in SARs, 28% in options and 28% in phantom stock. On February 28, 2008, the Company issued 379,564 options, under this plan. These awards are being accrued over the vesting period.

During the year ended December 31, 2007 and 2006, Gerdau Ameristeel recognized $900 and $400, respectively, of stock compensation costs related to the options issued during 2007 and 2006. The remaining unrecognized compensation cost related to unvested options at December 31, 2007 was approximately $1,300, and the weighted average period of time over which this cost will be recognized is 3 years.

Under the employment agreement of Gerdau Ameristeel's President and Chief Executive Officer (the "Executive"), effective as of June 1, 2005, the Executive is entitled to participate in a long-term incentive arrangement which provides that Gerdau Ameristeel will deliver 1,749,526 Common Shares as long as the Executive is Chief Executive Officer of Gerdau Ameristeel on June 1, 2015. In addition, the Executive is entitled to an amount of Common Shares equal to the amount of cash dividends payable on such Common Shares, plus an amount in cash equal to 100% of the amount by which $25,000 exceeds, on June 1, 2015, the value of the 1,749,526 Common Shares, the amount of cash dividends payable on such Common Shares, plus the value of certain shares of Gerdau S.A. stock or American Depository Receipts of Gerdau S.A. awarded pursuant to the Executive's separate employment agreement with Gerdau S.A., dated as of June 1, 2005, as long as the Executive is Chief Executive Officer of Gerdau Ameristeel on June 1, 2015.

(in thousands of U.S. Dollars, unless otherwise stated)

In order to secure Gerdau Ameristeel's obligations to deliver such Common Shares, the Gerdau Ameristeel will deposit in trust such Common Shares over a period beginning at the end of the first year following the commencement of the start date and ending 10 years thereafter or such earlier date if the Executive is separated from service in certain circumstances. In the event that the Executive has a separation from service prior to June 1, 2015, due to termination without cause, termination by the Executive for any reason or termination for death or disability, the Executive will, in each instance, be entitled to a calculated portion of the Executive's long-term incentive. The award is being accrued over the service period. Under this employment agreement, 474,313 shares have been issued by Gerdau Ameristeel to the trust.

The Corporation offers a Deferred Share Unit Plan ("DSUP") for independent members of the board of directors. Under the DSUP, each director receives a percentage of his annual compensation in the form of deferred share units ("DSUs"), which are notional common shares of Gerdau Ameristeel. The issue price of each DSU is based on the closing trading value of the common shares on the meeting dates and an expense is recognized at that time. The shares are subsequently marked to market and expensed accordingly. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. The director is not permitted to convert DSUs into cash until retirement from the board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the outstanding DSUs was $1,300 and $800 at December 31, 2007 and 2006, respectively.

Gerdau Ameristeel and its predecessors had various other stock based plans. All amounts under these plans are fully vested. At December 31, 2007, there were 551,600 and 760,837 respectively, of SARs and options outstanding under these arrangements. The SARs are recorded as a liability and benefits are charged to expense. No further awards will be granted under these prior plans. For the year ended December 31, 2007 and 2006, Gerdau Ameristeel recorded $22,700 and $34,400, respectively, of expenses to mark to market outstanding stock appreciation rights and expenses associated with other executive compensation agreements.

The following table summarizes stock options outstanding as of December 31, 2007 and 2006, as well as activity during the year then ended:

	Year ended December 31, 2007		Year ended December 31, 2006	
Gerdau Ameristeel Plans	**Number of shares**	**Weighted-average exercise price**	**Number of shares**	**Weighted-average exercise price**
Outstanding, beginning of year	1,418,511	5.37	2,264,576	6.42
Granted	454,497	10.90	202,478	9.50
Exercised	(360,788)	3.46	(664,203)	1.85
Forfeit	(25,051)	9.15	(2,840)	1.80
Expired	(199,500)	22.77	(381,500)	17.70
Outstanding, end of year	1,287,669	5.92	1,418,511	5.37
Options exercisable	760,837		1,216,033	

At December 31, 2007, the weighted-average remaining contractual life of options outstanding and exercisable was 5.57 years and 1.88 years, respectively.

(in thousands of U.S. Dollars, unless otherwise stated)

At December 31, 2007 and 2006, the aggregate intrinsic value of shares outstanding and options expected to vest was $10,800 and $7,000, respectively. At December 31, 2007 and 2006, the aggregate intrinsic value of options exercisable was $8,900 and $7,000, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The grant date fair value of stock options granted during the years ended December 31, 2007 and 2006 was $4.08 and $4.88, respectively.

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised during the year ended December 31, 2007 are provided in the following table:

	2007	2006
Proceeds from stock options exercised	1,258	1,290
Tax benefit related to stock options exercised	1,159	1,998
Intrinsic value of stock options exercised	3,765	4,694
Total fair value of shares vested	10,648	8,960

The following table summarizes information about options outstanding at December 31, 2007:

Exercise price range (US$)	Number outstanding	Weighted-average remainig contractual life	Weighted-average exercise price	Number exercisable at Dezember 31, 2007
$1.38	170,022	3.70	1.38	170,022
$1.80 to $1.91	353,672	3.10	1.84	353,672
$2.12 to $2.96	182,326	1.70	2.69	182,326
$9.50 to $10.90	569,649	8.90	10.47	42,817
$22.70 (1)	12,000	0.30	22.70	12,000
	1,287,669			760,837

Note: (1) these options are denominated in Canadian dollars and have been translated to $ using the exchange rate at December 31, 2007.

The assumptions used for purposes of estimating the fair value of the options on the grant date following the Black & Scholes method to present the pro-forma disclosures in Note 3.13 were as follows for options granted during all years presented:

The fair value of each option grant is estimated on the date of grant using the Black & Scholes option-pricing model with the following weighted-average assumptions used for grants issued in the table below. Expected volatilities are based on historical volatility of the Company's stock as well as other companies operating similar businesses. The expected term (in years) is determined using historical data to estimate option exercise patterns. The expected dividend yield is based on the annualized dividend rate over the vesting period. The risk free interest rate is based on the rate for US Treasury bonds commensurate with the expected term of the granted option.

Assumptions for options granted during the years ended December 31	2007	2006	2005
Expected dividend yield	4.00%	0.80%	0.00%
Expected stock price volatility	50.50%	47.39%	55.00%
Risk-free rate of return	4.51%	4.68%	4.00%
Expected life	6.25 years	6.25 years	5.00 years

26 Guarantee of indebtedness

(a) Gerdau has provided a surety to Dona Francisca Energética S.A., in financing contracts which amount to R$71,546 thousand (equivalent of $40,392 period-end exchange rate) and represents 51.82% of total debt. This guarantee was established before December 2002, and, therefore, is not covered by the accounting requirements of FASB Interpretation No. 45 ("FIN 45"). The guarantee may be executed by lenders in the event of default by Dona Francisca Energética S.A.

(b) Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau de Aços are the guarantor on Senior Liquidity Facility of its subsidiary GTL Trade Finance Inc., in amount to $400.000. Since all the entities are under the common control of MG, this guarantee is not covered by the recognition provisions of FIN 45.

(c) Gerdau is the guarantor on loans of its subsidiary GTL Spain in the amount of $7,982. Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau de Aços guarantee the $600,000 Perpetual Senior Securities issued by Gerdau S.A. Gerdau also guarantees loans of its subsidiaries Gerdau Açominas, Gerdau Aços Longos and Siderperu in the amount of $663,938, $30,239 and $150,000, respectively.

As the guarantees above are between a parent company (the Company) and its subsidiaries they are not subject to the recognition provisions under FIN 45. These guarantees may be executed upon failure by the subsidiaries or by Gerdau in satisfying their financial obligations.

(d) Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos provide guarantees to Banco Gerdau S.A. that finance sales to selected customers. These sales are recognized at the time the products are delivered. Under the vendor program, the Company is the secondary obligor to the bank. At December 31, 2007 customer guarantees provided by the company totaled $3,357, $11,701, $14,829 and $512, respectively. Since Banco Gerdau S.A., Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos are under the common control of Metalúrgica Gerdau, this guarantee is not covered by the recognition provisions of FIN 45.

(e) GTL Equity provides guarantees to Banco Santa Cruz S.A. of multiple credit facilities of its subsidiary Comercial Gerdau S.A., in amount to $2,000. Since GTL Equity and Comercial Gerdau S.A. are both under common control this guarantee is not covered by the recognition provisions of FIN 45.

(f) Gerdau S.A., Gerdau Aços Longos, Gerdau Açominas, Gerdau Aços Especiais, Gerdau Comercial de Aços and Açominas Overseas provide guarantees to Gerdau Ameristeel on its Term Loan for the acquisition of Chaparral Steel Company, on the total amount of $2,750,000. Since the guarantors and the guarantee are entities under common control of Gerdau S.A., this guarantee is not covered by the recognition provisions of FIN 45.

(g) Gerdau S.A., Gerdau Aços Longos, Gerdau Açominas, Gerdau Aços Especiais and Gerdau Comercial de Aços are the guarantor on Ten Years Bond of its subsidiary GTL Trade Finance Inc., in amount to $1,500,000. Since all the entities are under the common control of MG, this guarantee is not covered by the recognition provisions of FIN 45.

27 Other operating (expenses) income, net

The amounts recorded under "Other operating (expenses) income, net" include mainly: (a) the effects of the recognition of IPI (federal VAT) in the amount of $ 58,531, related to reversal of credits for the year ended December 31, 2007. This recognition was made because of a recent change in jurisprudence by the Federal Supreme Court (STF), (b) the effects of recording at fair value the forward commitment to acquire a minority interest of Diaco which amounted to $23,594, $54,635 and $7,529 (for the years ended December 31, 2007, 2006 and 2005, respectively), and (c) gains for tax credits recovered as result of final judicial decisions with respect to PIS and Cofins taxes which amounted to $37,304 for the year ended December 31, 2006.

28 Subsequent events

(a) On January 8, 2008 the Board of Directors decided to authorize the Company to purchase shares of its own issuance. These shares will be acquired using cash funds backed by existing profit reserves up to the adjusted limit of 1,000,000 preferred shares.

(b) On January 14, 2008 the Company through its subsidiary Gerdau GTL Spain purchased for $107.2 million the interest of 40.2% of Diaco S.A.'s capital belonging to minority shareholders. At the end of this operation, the Company came to hold, indirectly, 98% of the shares representing the capital of Diaco S.A..

(c) On February 12, 2008, the Company through its subsidiary Pacific Coast Steel Inc. (PCS) acquired the assets of Century Steel, Inc. ("CSI"), a reinforcing and structural steel contractor specializing in the fabrication and installation of structural steel and reinforcing steel products, for approximately $151.5 million. Concurrently with the acquisition of CSI, the Company will pay approximately $68.0 million to increase its equity participation in PCS to approximately 84%. These transactions are expected to be closed in the second quarter of 2008.

(d) On February 13, 2008 the Board of Directors approved the payment of R$0.29 per common and preferred share of dividend as an anticipation of minimum statutory dividend. Those dividends were based on shareholdings positions as of February 22, 2008, and the payment was done on March 05, 2008.

(e) On February 15, 2008 the National Electrical Power Agency – ANEEL granted to the Company the concession to produce electricity at the hydroelectric complex of São João – Cachoeirinha, composed of two hydroelectric plants to be built in the river Chopim, in the municipalities of Honório Serpa and Clevelândia, in the state of Paraná. The project will have an installed capacity of 105 MW. The construction should be completed by the beginning of 2011. The estimated investment is $ 173 million.

(f) On February 21, 2008 the Company has reached an agreement to acquire 50.9% of Cleary Holdings Corp., which controls coke production units and coking coal reserves in Colombia and has current annual capacity of 1.0 million tonnes of coke, and its coking coal reserves are estimated to be 20 million tonnes. Total purchase price for this acquisition is $59 million and it is still subject to be approved by regulatory agencies in Colombia.

(g) On February 27, 2008 the Company has concluded the acquisition of 49% of the holding company Corsa Controladora, S.A. de C.V., which holds 100% of the capital stock of Aceros Corsa, S.A. de C.V. and also controls two distributors of steel products. Aceros Corsa, located in the city of Tlalnepantla, in the metropolitan region of Mexico City, is a long steel mini-mill producer (light commercial profiles) with an installed capacity of 150 thousand tonnes of crude steel and 300 thousand tonnes of rolled products annually. Total purchase price for this acquisition was $110.7 million.

(h) On March 03, 2008 the Company's Board of Directors has approved a public offering of common and preferred shares of Gerdau S.A. in the amount of up to R$2.8 billion ($1.7 billion on March 03, 2008). This public offering is subject to be approved by Brazilian Securities Commission – CVM.

* * *

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