GERDAU S.A.
Form 20-F
April 11, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14878

GERDAU S.A.

(Exact Name of Registrant as Specified in its Charter)

Federative Republic of Brazil

(Jurisdiction of Incorporation or Organization)

N/A

(Translation of Registrant s name into English)

Av. Farrapos 1811

Porto Alegre, Rio Grande do Sul - Brazil CEP 90220-005

(Address of principal executive offices) (Zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange in Which Registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation

pursuant to Section 15(d) of the Act:

None

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2007 was:

231,607,008 Common Shares, no par value per share

435,986,041 Preferred Shares, no par value per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the Registrant has elected to follow Item 17 o Item 18 x.

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INTRODUCTION

Unless otherwise indicated, all references herein to:

(i) the Company , Gerdau , we or us are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil) and its consolidated subsidiaries;

(ii) Açominas are references to Aço Minas Gerais S.A. Açominas prior to November 2003 whose business was to operate the Ouro Branco steel mill. In November 2003 the company underwent a corporate reorganization, receiving all of Gerdau s Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A.;

(iii) Gerdau Açominas are references to Gerdau Açominas S.A. after November 2003 and to Açominas before such date. In July 2005, certain assets and liabilities of Gerdau Açominas were spun-off to other four newly created entities: Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Gerdau América do Sul Participações. As a result of such spin-off, as from July 2005, the activities of Gerdau Açominas only comprise the operation of the Ouro Branco steel mill;

(iv) Chaparral Steel or to Chaparral are references to Chaparral Steel Company, a corporation organized under the laws of the State of Delaware, and its consolidated subsidiaries;

(v) Preferred Shares and Common Shares refer to the Company s authorized and outstanding preferred stock and common stock, designated as *ações preferenciais* and *ações ordinárias*, respectively, all without par value. All references herein to the *real* , *reais* or *R$* are to the Brazilian *real*, the official currency of Brazil. All references to (i) U.S. dollars , dollars , U.S.$ or $ are to the official currency of the United States, (ii) Canadian dollars or Cdn$ are to the official currency of Canada (iii) billions are to thousands of millions, (iv) km are to kilometers, and (v) tonnes are to metric tones;

(vi) Installed capacity means the annual projected capacity for a particular facility (excluding the portion that is not attributable to our 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;

(vii) Tonne means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds;

(viii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, Latin America, North America and Europe, excluding our joint ventures;

(ix) IISI means the International Iron and Steel Institute, IBS means Brazilian Steel Institute (Instituto Brasileiro de Siderurgia) and AISI means American Iron and Steel Institute;

(x) CPI means consumer price index.

The Company has prepared the consolidated financial statements included herein in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The investments in Gallatin Steel Co. (Gallatin), Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investments in Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, the investments in the holding company Multisteel Business Holdings Corp., in which the Company holds a 49% stake, which holds 98.57% of the capital stock of Industrias Nacionales, C. por A. (INCA), in Dominican Republic, and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake, are accounted for using the equity accounting method.

Unless otherwise indicated, all information in this Annual Report is stated for December 31, 2007. Subsequent developments are discussed in Item 8 - Financial Information - Significant Changes.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to our 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 we believe 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 us.

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

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our 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.

Our 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.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by, the U.S. GAAP financial statements of the Company and Operating and Financial Review and Prospects appearing elsewhere in this Annual Report. The consolidated financial data for the Company on December 31, 2007, 2006, 2005, 2004 and 2003 are derived from the financial statements prepared in accordance with U.S. GAAP.

	(Expressed in thousands of U.S. dollars except quantity of shares and amounts per share)				
	2007	**2006**	**2005**	**2004**	**2003**
Income Statement					
Net sales	15,814,517	11,844,230	8,894,432	6,952,149	4,530,969
Cost of sales	(11,882,779)	(8,777,827)	(6,564,245)	(4,838,949)	(3,445,564)
Gross profit	3,931,738	3,066,403	2,330,187	2,113,200	1,085,405
Sales and marketing expenses	(338,645)	(256,064)	(203,244)	(154,558)	(146,388)
General and administrative expenses	(1,041,320)	(821,497)	(466,034)	(359,102)	(241,854)
Other operating income (expenses), net	(17,836)	107,395	(8,246)	28,710	(824)
Operating income	2,533,937	2,096,237	1,652,663	1,628,250	696,339
Financial expense, foreign exchange (gain) loss and gains (losses) on derivatives, net	(347,625)	(311,396)	(191,897)	(132,409)	(254,763)
Financial income	426,657	458,812	204,483	81,592	62,036
Equity in earnings of unconsolidated companies, net	66,263	118,074	96,476	141,890	22,062
Gain on Gerdau Ameristeel investment				2,742	
	2,679,232	2,361,727	1,761,725	1,722,065	525,674

Income before income taxes and minority interest					
Provision for taxes on income (expense)					
Current	(419,242)	(442,016)	(347,545)	(329,229)	(87,812)
Deferred	(111,118)	3,115	(117,750)	(77,451)	121,925
Income before minority interest	2,148,872	1,922,826	1,296,430	1,315,385	559,787
Minority interest	(532,351)	(409,018)	(178,909)	(157,027)	(49,623)
Net income available to common and preferred shareholders	1,616,521	1,513,808	1,117,521	1,158,358	510,164
Basic earnings per share (1) in $					
Common	2.44	2.28	1.68	1.74	0.76
Preferred	2.44	2.28	1.68	1.74	0.76
Diluted earnings per share (1) in $					
Common	2.42	2,26	1.67	1.74	0.76
Preferred	2.42	2,26	1.67	1.74	0.76
Cash dividends declared per share (1) in $					
Common	0.64	0.59	0.55	0.29	0.18
Preferred	0.64	0.59	0.55	0.29	0.18
Weighted average Common Shares outstanding during the year(1)	231,607,008	231,607,008	231,607,008	231,607,008	231,607,008
Weighetd average Preferred Shares outstanding during the year (1)	430,963,351	432,238,895	432,165,971	432,564,935	435,921,354
Number of Common Shares outstanding at year end (2)	231,607,008	231,607,008	231,607,008	231,607,008	231,607,008
Number of Preferred Shares outstanding at year end (2)	436,751,295	430,882,697	431,417,499	432,446,342	434,433,541

(1) Per share information has been retroactively restated for all periods to reflect the effect of: (a) the stock bonus of ten shares for three shares held, approved in April 2003, (b) the reverse stock split of one share for 1,000 shares held, approved in April 2003, (c) the stock bonus of one share for every share held approved in April 2004, (d) the stock bonus of one share for two shares held approved in March 2005 and (e) the

stock bonus of one share for two shares held approved in March 2006. Earnings per share has been computed on weighted average share outstanding during each year.

(2) The information on the numbers of shares presented above relate to the end of each year, and is retroactively restated to reflect changes in numbers of shares due to the transactions described in (i) above.

	On December 31, (expressed in thousands of U.S. dollars)				
	2007	**2006**	**2005**	**2004**	**2003**
Balance sheet selected information					
Cash and cash equivalents	1,137,553	485,498	532,375	248,954	92,504
Restricted cash	6,580	13,512	9,617	6,603	1,935
Short-term investments (1)	1,757,623	2,483,052	1,761,421	404,512	236,137
Net working capital (2)	4,899,425	4,160,127	3,372,531	1,610,722	300,670
Property, plant and equipment	8,619,714	5,990,629	3,517,962	2,790,201	2,304,158
Total assets	22,970,630	14,488,865	9,301,742	6,852,249	4,770,834
Short term debt (including CurrentPortion of Long-Term Debt)	1,417,993	1,065,120	566,562	673,204	798,496
Long term debt, less current portion	7,053,916	3,128,868	2,233,031	1,280,516	1,132,429
Debentures short term	21,524	1,371	1,162	1,125	1,048
Debentures long term	509,880	443,280	414,209	344,743	155,420
Total Shareholders equity	7,003,459	4,930,641	3,621,530	2,522,585	1,403,063
Retained earnings	2,569,255	1,459,818	1,431,062	1,509,847	1,161,527
Capital stock	3,432,613	3,432,613	2,212,382	1,539,204	982,601

(1) Include trading, available for sale and held to maturity investments

(2) Total current assets less total current liabilities

Dividends

The Company s total authorized capital stock is composed of common and preferred shares. As of March 31, 2008, the Company had 231,607,008 common shares and 431,189,355 non-voting preferred shares outstanding (excluding treasury stock).

The following table details dividends paid to holders of common shares and preferred shares since 2003. The figures are expressed in Brazilian *reais* and converted into U.S. dollars on the date of resolution of the dividend. Dividend per share figures have been retroactively adjusted for all periods to reflect: (a) the stock bonus of ten shares for three shares held, approved in April 2003, (b) the reverse stock split of one share for 1,000 shares held, approved in April 2003, (c) the stock bonus of one share for every share held approved in April 2004, (d) the stock bonus of one for two shares held approved in March 2005 and (e) a stock bonus of one share for two shares approved in March 2006.

Dividend per share information has been computed by dividing dividends and interest on capital stock by the quantity of shares outstanding, which excludes treasury stock. The table below presents the quarterly dividends payment, except when indicated:

Period	Date of Resolution	R$ per Share (3) Common Shares	R$ per Share (3) Preferred Shares	$ per Share (3) Common Shares	$ per Share (3) Preferred Shares
1st Quarter 2003 (1)	03/31/2003	0.1111	0.1111	0.0331	0.0331
2nd Quarter 2003 (1)	06/30/2003	0.0756	0.0756	0.0263	0.0263
3rd Quarter 2003 (1)	09/30/2003	0.1133	0.1133	0.0388	0.0388
4th Quarter 2003 (1)	12/30/2003	0.2267	0.2267	0.0785	0.0785
1st Quarter 2004 (1)	03/30/2004	0.1422	0.1422	0.0487	0.0487
2nd Quarter 2004 (2)	06/30/2004	0.2889	0.2889	0.0930	0.0930
3rd Quarter 2004 (1)	07/31/2004	0.2044	0.2044	0.0671	0.0671
3rd Quarter 2004	11/03/2004	0.2356	0.2356	0.0832	0.0832
4th Quarter 2004	02/01/2005	0.4222	0.4222	0.1616	0.1616
1st Quarter 2005	05/03/2005	0.3000	0.3000	0.1200	0.1200
2nd Quarter 2005	08/03/2005	0.3200	0.3200	0.1382	0.1382
3rd Quarter 2005	11/08/2005	0.3000	0.3000	0.1362	0.1362
4th Quarter 2005	02/08/2006	0.2800	0.2800	0.1275	0.1275
1st Quarter 2006(1)	05/03/2006	0.3000	0.3000	0.1449	0.1449
2nd Quarter 2006	08/02/2006	0.3500	0.3500	0.1604	0.1604

3rd Quarter 2006(1)	11/07/2006	0.3500	0.3500	0.1639	0.1639
4th Quarter 2006	02/07/2007	0.3500	0.3500	0.1678	0.1678
1st Quarter 2007 (1)	05/03/2007	0.3400	0.3400	0.1680	0.1680
2nd Quarter 2007	08/08/2007	0.2900	0.2900	0.1537	0.1537
3rd Quarter 2007(1)	11/07/2007	0.3400	0.3400	0.1954	0.1954
4th Quarter 2007	2/13/2008	0.2900	0.2900	0.1661	0.1661

(1) Payment of interest on capital stock.

(2) Payment of both dividends and interest on capital stock.

(3) As of April 2003 and as a result of the reverse stock split of one share for 1,000 shares held approved in this same month, dividends are paid on a per share basis (rather than a per thousand shares basis, as was the case prior to this date).

Law 9,249, of December 1995, states that a company may, at its sole discretion, pay interest on capital stock in addition to or instead of dividends (See Item 8 Financial Information - Interest on Capital Stock). A Brazilian corporation is entitled to pay its shareholders interest on capital stock up to the limit calculated as the TJLP rate (Long-Term Interest Rate) on its shareholders equity or 50% of the income for the fiscal year, whichever is the greater. This payment is considered part of the mandatory dividend required by Brazilian Corporate Law for each fiscal year. The payment of interest on capital stock as described herein is subject to a 15% withholding income tax. See Item 10. Additional Information - Taxation.

B. CAPITALIZATION AND INDEBTEDNESS

Not required.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not required.

D. RISK FACTORS

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;
- 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.

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 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 our *real*-denominated debt may increase. Inflation may also hinder our 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 our business.

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 these two countries may affect results of operations. The same happens with all the other businesses located with respect to the exchange rate between the local currency of the respective subsidiary and the U.S. Dollar.

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* while a portion of its net sales and costs are in Canadian Dollars.

The *real* appreciated 11.8% in 2005, 8.7% in 2006 and 17.2% in 2007 against the U.S. dollar. On March 31st, 2008, the U.S. dollar/*real* exchange rate was $1.00 per R$1.749.

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 $6,796.1 million at December 31, 2007, representing 75.5% of its indebtedness on a consolidated basis. On December 31, 2007, the Company had $1,138.2 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 *reais* in the periods in which the Brazilian currency appreciates in relation to the U.S. currency.

Developments in Other Emerging Markets or in the United States 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 United States, 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 United States 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 Us.

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 our 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 our 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 United States 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 its presence principally through acquisitions 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 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 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 to 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 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 the Company s business.

Compliance Costs Related to Environmental Regulation May Increase if Requirements Become More Stringent. Such Increased Costs May Adversely Affect the Company s Results Of Operations.

The Company s industrial plants are required to comply with a number of federal, state, and municipal environmental laws and regulations with respect to the environment and the operation of mills in every country in which the Company operates. These regulations include environmental licensing procedures, those relating to the control of air emissions, waste, water discharges and solid and hazardous waste handling and disposal. Non-compliance with these laws and regulations may result in civil and administrative penalties, criminal sanctions or closure orders, and in various circumstances may requires the cleanup of contamination associated with previous operations. If existing or future laws, regulations become more demanding, wich is a worldwide trend, expenditures on fixed assets and the costs of compliance may rise, adversely affecting the Company s financial condition. Furthermore, the Company may be subject to additional expenditures and costs associated with environmental compliance as a result of future acquisitions.

We may be unable to reduce our financial leverage, which could increase our cost of capital, which could adversely affect our financial condition or results of operations.

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

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Gerdau S.A. is a Brazilian corporation (*Sociedade Anônima*) that was incorporated on November 20, 1961 under the laws of Brazil. Its main registered office is located at Av. Farrapos, 1811, Porto Alegre, RS Brazil. Its telephone number 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 - Reorganization.

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 Riograndense 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 eleven steel mills 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 United States. Gerdau Ameristeel itself has a number of operations throughout Canada and the United States, 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 35.98% 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 38.46% already owned by Gerdau, and represents 74.44% 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, we purchased an addictional interest of 40.3%, increasing our 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 Sidenor, 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 United States. 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% 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 32.84% of the total capital stock. This acquisition added to the stake already acquired earlier in the year and represents 83.27% 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% of its sales are in flat steel products and 80% 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 Sidenor, S.A. in which it has a 40% 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.

During 2007, the Company made various acquisitions of steel producers, the most important of which was the Chaparral acquisition in September 2007.

On March 28, 2007, Gerdau acquired 100% of the capital stock of Grupo Feld S.A. de C.V., a Mexican Group holding three companies: Siderúrgica Tultitlán S.A. de C.V. (Sidertul), a small mill of long steel located at City of Mexico, which produces 350,000 tonnes of crude steel and 330,000 tonnes of rolled steel; Ferrotultitlán S.A. de C.V. (Ferrotul), a company which basically sells the entire production of Sidertul, and also Arrendadora Valle de México S.A. de C.V. (Arrendadora), a real estate company which owns the land and the buildings where Sidertul is located. The purchase price paid for this acquisition was $259 million.

On May 25, 2007, Gerdau acquired an interest of 30.45% in Multisteel Business Holdings Corp., a holding of Indústrias Nacionales, C. por A. (INCA), a company located in Santo Domingo, Dominican Republic. INCA is a producer of rolled products, with annual capacity of approximately 400,000 tonnes of rolled steel. This partnership will allow the Company to access the Caribbean market. The total cost for this acquisition was $42.9 million. On July 2, 2007, the Company acquired an additional interest of 18.55% in Multisteel Business Holdings Corp., totaling, upon this acquisition, an interest of 49%. The total cost of this second acquisition was $72.0 million.

On June 15, 2007, Gerdau acquired 100% of the capital stock of Siderúrgica Zuliana C.A., a Venezuelan company operating a steel mill in the city of Ojeda, Venezuela, with annual production capacity of 300,000 tonnes of crude steel and 200,000 tonnes of rolled steel. The total cost of the acquisition was $92.5 million.

On June 17, 2007, Pacific Coast Steel (PCS), a joint venture in which Gerdau s subsidiary Gerdau Ameristeel Corporation holds an interest of 55%, concluded the acquisition of the assets of Valley Placers, Inc. (VPI), a producer of fabricated rebar, located in Las Vegas, Nevada, for approximately $8.9 million. In addition to these activities, VPI operates facilities for the manufacturing of steel and a business for the retail supply in connection with the construction. Currently, VPI employs more than 110 field workers specialized in commercial and retail projects and public constructions.

On June 22, 2007, Gerdau and the Kalyani Group, from India, entered into a joint venture agreement for an investment in Tadipatri, India. The joint venture includes interest of 45% in SJK Steel Plant Limited, a producer of steel with two LD converters, one continuous casting and also facilities for the production of pig iron. The agreement sets forth the shared control and the purchase price is estimated to be $71 million. On December 11, 2007, the Company made a $20 million accelerated payment for the acquisition.

On August 27, 2007, Gerdau Ameristeel, through PCS, acquired D&R Steel, LLC, a producer of fabricated rebar, headquartered in Glendale, Arizona, for the amount of $4.9 million.

On September 14, 2007, Gerdau Ameristeel acquired Re-Bars Inc., an independent manufacturer of fabricated rebar, serving Savannah, Georgia and surroundings, for the amount of $2.9 million.

On September 14, 2007, Gerdau Ameristeel concluded the acquisition of Chaparral Steel Company, increasing the Company s portfolio of products and including a comprehensive line of structural steel products. Chaparral was the second largest producer of structural steel products in the North America and also the largest producer of steel bars. Chaparral operates two mills, one located in Midlothian, Texas and the other located in Petersburg, Virgínia. The total cost of the acquisition was $4.2 billion, plus the assumption of certain liabilities.

On October 1, 2007, the subsidiary Gerdau Ameristeel acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials, headquartered in Nashville, in the state of Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was $46 million in cash, plus the assumption of certain liabilities of the acquired company.

On October 19, 2007, Gerdau executed a letter of intent for the acquisition of a shareholding interest of 49% in the capital stock of the holding Corsa Controladora, S.A. de C.V., headquartered in the Mexico City, Mexico. The holding company is the holder of 100% of the capital stock of Aceros Corsa, S.A. de C.V. and its distributors. Aceros Corsa, located in the city of Tlalnepantla, metropolitan region of the Mexico City, is a mini-mill responsible for the production of long steel (light commercial profiles) with installed capacity of 150,000 tonnes of crude steel and 300,000 tonnes of rolled products per year. The purchase price is $110.7 million, depending on a number of conditions precedent. On February 27, 2008, the Company announced the conclusion of the acquisition of the business.

On October 19, 2007, the subsidiary Sidenor Industrial acquired Trefilados de Urbina, S.A. Trefusa for a purchase price of $25.8 million. Trefusa is a producer of special drawn steel products located in Vitória, Spain.

On November 19, 2007, Gerdau entered into a definitive 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. The purchase price for this acquisition is $1.458 billion plus $215 million in assumed debts, subject to adjustment related to certain conditions.

On December 31, 2007, the Company entered into a definitive agreement for the exchange of its shareholding interest in Margusa Maranhão Gusa S.A., through which the Company became the holders of Aplema. The exchange was carried out based on equivalent amount in terms of the quotas of Aplema and the shares of Margusa.

B. BUSINESS OVERVIEW

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 in electric arc furnaces, or EAF. In Brazil it operates three blast furnace 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 has a total of 43 steel producing units in Latin America (including Brazil) and North America, as well as a consolidated subsidiary in Spain, Corporación Sidenor, 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 physical sales were 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 $22.97 billion, consolidated net sales of $15.81 billion, total consolidated net income of $1.62 billion and a shareholders equity of $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, and 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.

Corporate 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 resulted in the transfer of the Company s Brazilian and Latin American steel production and sales activities from Gerdau Açominas to (i) three newly created majority-owned subsidiaries Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços in addition to Gerdau Açominas and (ii) a new Latin American holding company called Gerdau América Latina Participações S.A., which holds the Company s Latin American operations outside of Brazil and the Company s operations in Colombia.

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) was as follows as of December 31, 2007:

The 2005 Reorganization did not change the Company s corporate governance. For additional details on the 2005 Reorganization, see note 2.4 Corporate Restructuring to the Company s consolidated condensed financial statements included in this Annual Report.

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 in tonnage. 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 in tonnage. For the year ended December 31, 2007, slabs, blooms and billets accounted for 9.1% of the Company s consolidated shipments in tonnage.

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. 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 wire, galvanized wire, 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 Sidenor 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. Flat steel products accounted for 1.7% of the Company s shipments in both 2006 and 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.

Gerdau S.A. Consolidated Shipments by Product Line (percent)	Year ended December 31, 2007	2006	2005
TOTAL (1,000 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 in tonnage and net sales by region for the periods indicated:

Shipments

Gerdau S.A. Consolidated Shipments by Region of Origin of Shipment (percent)	Year ended December 31, 2007	2006	2005
TOTAL (1,000 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

Gerdau S.A. Consolidated Net Sales by Region (percent)	**Year ended December 31, 2007**	**2006**	**2005**
TOTAL *($ million)*	**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 the production sold in Brazil was distributed through Comercial Gerdau, the Company s largest distribution channel with 68 stores throughout Brazil, 14 fabricated reinforcing steel facilities (Prontofer) and four 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 its products directly to customers through third parties 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. Gerdau Aços Especiais Brazil, in partnership with its customers, produces engineering steel, tool steel and stainless steel that is sold to almost 240 clients. About 72% of its sales go to the automotive industry. In order to meet the continuous need for innovation, Gerdau Aços Especiais Brazil is constantly developing new products, such as micro-alloyed steel for diesel engines with high power and low emissions, clean steel for application in bearings, and steel with improved machining characteristics, which allow higher machining speeds and lower tooling replacement, among others. Gerdau Aços Especiais Brazil has a 40% stake in Corporación Sidenor, a Spanish specialty steel company which, in turn, 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 (Prontofer) and four 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

Gerdau has been exporting a larger part of its production since 2003 following the consolidation of its Brazilian operations and the 2005 integration of Açominas. Due to a stronger domestic market in 2007, a portion of sales was reallocated 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 well respected European and American banks.

Gerdau s Brazilian exports generated $1,412.3 million in revenues in 2007. Exports from Brazilian operations totaled 2.1 million tonnes, a decrease of 10.3% from 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, South, Central and North America and Asia. Exports to South America were responsible for 24% of total exports in 2007, against 29% in 2006. and exports to Asia increased from 23% in 2006 to 26% 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:

Gerdau S.A. Consolidated Exports (percent) Destination	**Year ended December 31, 2007**	**2006**	**2005**
Total including shipments to subsidiaries (1,000 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 11 downstream operations (including three 50.0%-owned joint ventures), Gerdau Ameristeel primarily serves customers in the eastern parts 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 comprises secondary value-added steel businesses and consists of fabrication of rebars, 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 that quick delivery is provided to meet 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 had an approximately 31% share of the Chilean long steel market in 2007. 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 both 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 market share of 39.0% of 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. The Company believes that Siderperú has a market share of approximately 45.0% of the long products segment in Peru. 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% of the domestic 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% of 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% of the Venezuelan steel market. The company sells its products to 25 clients and distributors.

Other International Operations

Corporación Sidenor

Gerdau maintains a presence in European Union through Corporación Sidenor, which sells specialty steel to the whole continent. Corporación Sidenor has a market share of 9.8% of the European Union specialty steel market. 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. Exports to Gerdau s subsidiaries may be sold on credit at 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 Sidenor 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, as occurred in 2004, 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 for the Brazilian operations 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 in Brazil.

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 locations. 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 approximately 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 Sidenor 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 their 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 were 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 approximately 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 2008 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 $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 $ 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.

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 million tonnes)

Source: IISI/World Steel Figures 2007

China is undergoing a period of strong industrialization, launching numerous 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 woul have been: in 1990, that number was equal to 13.4%, and in 2007, equivalent to 47.1%.

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 2.5% 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 the 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 special 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.

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 (%)

	Fiscal year ending December 31, 2007	2006
Gerdau	52.1*	46.9
ArcelorMittal Brazil	35.5	36.7
V&M do Brasil	6.2	6.2
Barra Mansa	5.5	5.6
Other	0.7	4.6
Total	100.0	100.0

*Includes Aços Villares

Source: IBS

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 (%)

	Fiscal year ending December 31, 2007	2006
ArcelorMittal Brasil (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
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 $ 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 $ 4.7 billion and a total positive commercial balance of $ 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. 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. Among North American countries, the U.S. was the main destination, representing 19.0% of all Brazilian exports. The five biggest markets together corresponded to 44.7% of Brazilian steel exports in 2007.

In 2007, Brazil s steel imports totaled 1.6 million tonnes, or 7.3% of domestic apparent consumption. In 2007, Brazil imported 338.7 thouansd 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, the acquisition of Sheffield Steel in 2006 and of Chaparral Steel in 2007 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.

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 Aços 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 Gerdau 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. Gerdau 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 market to be about approximately 31%.

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 $3.9 billion, including material damage to installations ($3.1 billion as of December 31, 2007) and losses of gross revenues ($807 million as of December 31, 2007), 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, 2008. The Company s mini-mills are covered against named risks under various policies.

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

C. ORGANIZATIONAL STRUCTURE

Gerdau Group

Gerdau S.A. is a non-operational holding company (since November, 2003 when Gerdau S.A. s Brazilian assets were transferred to Açominas, creating Gerdau Açominas S.A.) controlled by a holding company, Metalúrgica Gerdau S.A. As of December 31, 2007, Gerdau S.A. consolidates the results of the following operating companies: Gerdau Ameristeel Corporation (USA/Canada) and its subsidiaries, Gerdau Açominas S.A. (Brazil) and its subsidiaries, Gerdau Aços Longos S.A. (Brazil) and its subsidiaries, Corporación Sidenor S.A. (Spain) and its subsidiaries, Gerdau Aços Especiais S.A. (Brazil) and its subsidiaries, Gerdau Comercial de Aços S.A. (Brazil), Empresa Siderúrgica del Perú S.A.A. (Peru), Diaco S.A. (Colombia) and subsidiaries, Gerdau Laisa S.A. (Uruguay), Gerdau Chile Inversiones Ltda. and subsidiaries, Sipar Gerdau Inversiones S.A. and subsidiaries, Siderúrgica Zuliana, C.A., Siderúrgica del Pacífico S.A. and Seiva S.A. Florestas e Indústrias (Brazil) which operates in the forestry business.

The Company s investments in Gallatin, Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial y Comercial Limitada in Chile, in which the Company owns a 50% stake, the investment in Dona Francisca Energética S.A., in which the Company owns a 51.82% stake and the investments in Indústrias Nacionales (INCA) in Dominican Republic through Multisteel Business Holdings in which Gerdau has a 49% stake are accounted in the Company s financial statements using the equity method.

Significant Subsidiaries

General

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

	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 owned subsidiary		98
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	

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* 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).

In November 2007 Gerdau made a formal offer to the Açominas Employees Club (CEA) that was accepted for the acquisition of 100% of the shares held by members of the CEA in the Gerdau Group companies Gerdau Aços Longos S.A., Gerdau Açominas S.A., Gerdau Aços Especiais S.A. and Gerdau Comercial de Aços S.A., in the amount of 2.89% of the capital stock of each of these companies. Gerdau S.A. will pay R$675 million in 36 equal monthly installments, adjusted to 102% of the variation of the Brazilian Interbank Deposit Certificate rate (CDI).

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:

Chaparral Steel

On September 14, 2007, Gerdau Ameristeel acquired Chaparral Steel, for $86.00 per share in cash, or $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 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. Re-Bars is a supplier of fabricated rebar with an annual installed capacity of approximately 2,000 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 Urbina S.A. Trefusa

In October 2007, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A. in which it has a 40% 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 tons located in Arkansas, Tennessee, and Georgia.

Quanex Corporation

On November 19, 2007, Gerdau signed a definitive agreement to acquire Quanex Corporation, for $ 39.20 per share in cash. Quanex Corporation s Board of Directors has unanimously approved the transaction and is expected to recommend to its shareholders that they vote in favor of the offer. The offer price values Quanex Corporation s equity at approximately $1.458 billion. Quanex Corporation, through its MacSteel division, is the second largest producer of specialty steel (Special Bar Quality - SBQ) in the United States. It operates three mini-mills, located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The company also operates six downstream operations located in the states of Michigan (two), Ohio, Indiana (two) and Wisconsin. MacSteel has approximately 1,600 employees and an installed capacity of 1.2 million metric tonnes of crude steel and 1.1 million tonnes of rolled products per year. The acquisition agreement does not include Quanex s Building Products business, which is a non steel related operation. Quanex has announced the spin-off of this business to its shareholders prior to the completion of the proposed acquisition. The transaction is expected to be concluded before the end of the first half of 2008.

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 Sidenor

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 Sidenor, which has operations in Brazil and in Spain.

Corporación Sidenor produces specialty steel and 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 largest 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 Renca industrial unit Gerdau AZA continuing to operate 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 market to be approximately 31%. 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. In January, 2008, the Company acquired an additional 40.3% stake in Diaco S.A., increasing its stake to 97.4%

On November 19, 2005, the Company met all the conditions precedent related to the acquisition of a 97.0% controlling interest in Sidelpa. Sidelpa is the only producer of specialty long steel in Cali, Colombia.

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 that was 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% of its sales are of flat steel and the remaining 88% in long steel.

Gerdau Ameristeel

In September 1999, Gerdau acquired 75% 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% stake from Kyoei, increasing its overall stake in Ameristeel to 87%. 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%.

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 of the capital stock of the holding company Grupo Feld S.A. de C.V., located in Mexico City, Mexico. Grupo Feld owns 100% 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% stake in the capital stock of the holding company Multisteel Business Holdings Corp. which holds 98.57% 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. Sizuca owns 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), 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 all of their Margusa shares for all of the shares of Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda (Aplema).

Seiva S.A.

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

D. PROPERTY, PLANT AND EQUIPMENT

Environmental Issues

Gerdau S.A believes it is currently in compliance with government environmental regulations. The Company believes that there are no environmental issues that might affect use of the fixed assets described below.

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

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(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).

FOREIGN

PLANTS	INSTALLED CAPACITY PIG IRON/ SPONGE IRON	CRUDE STEEL	ROLLED PRODUCTS	EQUIPMENT	PRODUCTS
EUROPE		*1,150*	*1,220*		
SPECIALTY STEEL					
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 bars
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	updated	
Virginia	1,000	1,000	updated	updated	
GERDAU TOTAL	***5,860***	***24,805***	***20,980***	**-**	**-**

Mining Rights

Although the Company is primarily 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 $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:

$ millions	**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*

1,000 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.

See Item 5.A Operating Results Capital Expenditures~for our capital expenditures for the last three years

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 2006, 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 $16.5 million in 2007 ($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.

Brazilian Environmental Legislation

Our activities are subject to wide-sweeping Brazilian environmental legislation in the federal, state and municipal spheres governing, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, in addition to the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

The Brazilian environmental legislation foresees the imposition of criminal and administrative penalties on natural persons and legal entities whose conduct is characterized as an environmental crime or infraction, in addition to the civil obligation to repair the environmental damage they cause. In spite of the fact that we have never suffered any environmental penalties that could have a relevant impact on our business, any eventual environmental crime or infraction could subject us to penalties that include, among other things, the following:

- fines that, in the administrative sphere, could reach as high as R$50 million, depending on the violator s economic capacity and past record, as well as the severity of the facts and prior history, subject to being doubled and tripled in the case of repeat offenders;

- suspension or interference with the respective enterprise s activities; and

- loss of benefits, such as the suspension of government financing, inability to qualify for public bidding and tax incentives.

In addition, strict liability is applicable to environmental crimes, for a natural person and/or a legal entity. The environmental legislation also foresees the possibility of disregarding the legal status of a company s controller whenever that status represents an obstacle for receiving restitution for harm caused to the environment.

In the civil sphere, environmental damage implies joint and several liability, as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in our operations to perform such services as final disposal of solid waste does not exempt us from responsibility for any environmental damage that may occur.

Environmental Licenses

According to the Brazilian environmental legislation, the proper functioning of activities considered effectively or potentially polluting or that might, in some way, cause environmental damage, requires environmental licenses. This procedure is necessary both for the activity s initial installation and operating phases as well as for its expansion phases, and these licenses must be renewed periodically.

The Brazilian Institute for the Environment and Renewable Resources (IBAMA) has jurisdiction to issue licenses for projects having a national or regional environmental impact. In all other cases, the state environmental agencies have jurisdiction and, in the case of local impact, the municipal agencies have jurisdiction.

Environmental licensing of activities with significant environmental impacts is subject to a Prior Environmental Impact Study and respective Environmental Impact Report (EIA/RIMA), as well as the implementation of measures to mitigate and compensate for the environmental impact of the project. In the case of compensatory measures, the environmental legislation imposes on the project s owner the obligation to set aside funds equivalent to at least 0.5% of the total estimated cost of installing the project to implement and maintain conservation units.

The environmental licensing process includes the issuance of three licenses, all of which must be renewed periodically: Pre-License (LP), Installation License (LI) and Operation License (LO). These licenses are issued in accordance with each phase of project implementation, and maintaining their validity requires compliance with the requirements established by the environmental licensing agency. Lack of an environmental license, regardless of whether or not the activity is actually harming the environment, is considered an environmental crime and an administrative infraction, subjecting the violator, for example, to the administrative penalty of a fine, which, on the federal level, could be as much as R$10 million (subject to being doubled or tripled in the case of a repeat violation) and suspension of activities.

Currently, our operations are in compliance with all the legal requirements related to environmental licenses. However, any delay or refusal on the part of the environmental licensing agencies to issue or renew these licenses, as well as any difficulty on our part to meet the requirements established by these environmental agencies during the course of the environmental licensing process, might jeopardize or even impair the installation, operation and expansion of new and current projects.

Areas of permanent forest preservation and legal reserves

Some of our activities, mainly those related to reforestation for the production of firewood utilized in our industrial units, are subject to the provisions of the Brazilian Forestry Code.

The Brazilian Forestry Code determines that some areas, because of their importance to preserving the environment and water resources, are considered areas of permanent preservation (APP) such as, for example, areas adjacent to rivers or natural or artificial reservoirs, and hilltops and hillside property with an incline steeper than 45°. Suppression of the vegetation existing in these areas can only occur in cases of public need or social interest, provided it is previously authorized by the proper environmental agencies.

In addition, the Brazilian Forestry Code obliges the rural property owner to restore and preserve, depending on the region where the property is located, from 20% to 80% of its area containing native forest. On property where the extent of native forest does not meet the minimum percentage of legal forest reserves, Provisory measure 2166-67/2001 establishes the obligation to perform gradual reforestation of at least 1/10 of the area necessary to complete the legal forest reserve percentage every three years until the percentage required for that location has been achieved.

Provisory measure 2166-67/2001 also establishes alternative methods of restoring the area of legal forest reserve, which can be adopted successively or cumulatively. These alternate methods constitute compensation measures, such as: the adoption of a system of condominiums consisting of more than one property; compensated by another area within the same microbasin or in the same hydrographic basin in the State; the leasing of an area under the system of forest public right-of-way; or the acquisition of quotas of forest reserve areas instituted for this purpose.

Material Effects of Government Regulation

Besides government regulations that apply to our industry in general, the Company is not subject to any specific regulations that materially adversely affect its business.

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.

On March 3, 2008 the Company s Board of Directors approved a primary offering of the Company s common and preferred shares (including shares in the form of American Depositary Shares) in an amount of up to R$2.8 billion. The preferred shares and the American Depositary Shares offered in the Brazilian and U.S. markets will be issued via a registration statement filed with the SEC. The common shares offered to investors outside of Brazil will be issued pursuant to Rule 144A and Regulation S.

ITEM 4A. UNRESOLVED SEC STAFF COMMENTS

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission in respect of its periodic reports under the Exchange Act.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

General

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, 2006 and 2005 and for each of the years in the three year period ended December 31, 2007 included in this Annual Report, in accordance with US 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.

Overview

The Company is the largest producer of long rolled steel products in terms of production in Brazil according to the IBS and the second largest in North America according to AISI estimates. 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 $22,970.6 million, consolidated net sales of $15,814.5 million, total net income of $1,616.5 million and shareholders equity of $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 $1.1 trillion, representing a commercial surplus of $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 $1.00.

In 2007, the Brazilian GDP increased by 5.4%. The 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 $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	5.8%	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 - $1.00	R$ 1.7713	R$ 2.138
Average foreign exchange rate - $1.00(4)	R$ 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 $13.2 trillion and representing a deficit in the trade balance of payments of $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 $13.8 trillion and representing a deficit in the trade balance of payments of $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 foreing currencies.

For many years, Brazil experienced highrates 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. For a discussion of the foreing exchange rate in Brazil generally, see ***Item 10.D. Exchange Controls Exchange Rates.***

	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 $ 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 to the respective functional currency of each subsidiary. Brazilian operating subsidiarie s (Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços) functional currency is the Brazilian *real*.

Brazilian subsidiaries have foreing currency denominated assets and liabilities, maily 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 an 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 Foreing Currency Translations. Changes in the exchange rates between the functional currency of the Company s operations, such as the Brazilian *real* and tha 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, 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 $1.4 billion, compared to $1.3 billion in 2006. In 2007, the 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 Annual Report, 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 amount of interests based on Japanese Libor in Japanese yens 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 yens.

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, the unrealized gains on the Company s derivative financial instruments amounted to $0.9 million and unrealized losses amounted to $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 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 in this Annual Report. 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 (losses) 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,		
	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 our shipments:

Shipments (in thousand 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 $15,814.5 million in 2007, 33.5% greater than in 2006 ($11,844.2 million). Of this amount, 42.1% ($6,662.7 million) resulted from Brazilian operations, 36.7% ($5,806.6 million) from North American operations, 10.9% ($1,720.3 million) from Latin American operations (excluding Brazil) and 10.3% ($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 $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** **($ millions)**	**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 $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 $8,777.8 million in 2006 to $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% ($4,433.7 million) result from Brazilian operations, 40.1% ($4,764.0 million) from North American operations, 11.9% ($1,410.5 million) from Latin American operations (excluding Brazil) and 10.7% ($1,274.6 million) from European operations. The consolidation impact of the companies acquired in 2007 represented an increase of 6.8% or $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 $3,931.7 million in 2007, from $3,066.4 million in 2006. The consolidation impact of the companies acquired in 2007 represented an increase of 4.4% or $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 $1,380.0 million compared to $1,077.6 million in 2006. The consolidation impact of the companies acquired in 2007 represented an increase of 3.1% or $32.9 million in operating expenses, mainly because of Chaparral acquisition.

Other Operating Income (Expenses), Net

Other operating expense, net, amounted to $17.8 million in 2007 compared to other operating income, net, of $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 $58,531 thousand, 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 $23.6 million and $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 $37.3 million for the year ended December 31, 2006.

Operating Income

Operating income was $2,533.9 million in 2007, an increase of 20.9% when compared to $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 $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 $79.0 million, against net financial income of $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 $298.0 million in 2007 and $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 $66.3 million compared to $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 $348 per tonne in the year ended December 31, 2006 to $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 $2,679.2 million in 2007 compared to $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 $1,616.5 million, 6.8% greater than $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 $11,844.2 million in 2006, 33.2% more than 2005 ($8,894.4 million). Of this amount, 45.2% ($5,354.2 million) came from operations in Brazil, 37.7% ($4,464.2 million) from the North American units, 9.1% ($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 $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** **($ millions)**	**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 $795.5/tonne, a 15.0% increase from $691.6/tonne in 2005.

Cost of Sales and Gross Profit

Cost of sales increased from $6,564.2 million in 2005 to $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 $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 $3,066.4 million in 2006, compared to $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 $20.4 million in 2006 compared to an expense of $3.0 million in 2005) and to the accounting of PIS/COFINS on payments of interest on capital stock (approximately $19 million). In 2006, consolidated operating expenses were $1,077.6 million against $669.3 million in 2005. Operating expenses of the companies acquired in 2006 contributed to an increase of 37.3% or $249.7 million in operating expenses, mainly because of the Corporación Sidenor acquisition.

Other Operating Income (Expenses), Net

Other operating income, net, amounted $107.4 million in 2006 against other operating expense, net, of $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 $54.6 million in 2006 against $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 $37.3 million.

Operating Income

Operating income was $2,096.2 million in 2006, an increase of 26.8% when compared to $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 $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 $147.4 million, against net financial income of

$12.6 million in the previous year. This increase in financial income is mainly due to the foreign exchange gains of $132.9 million in 2006 compared to $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 $118.1 million compared to $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 $128.7 million in 2006 compared to $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 $75.4 million, benefit regarding tax deductible goodwill in the statutory books in the amount of $128.7 million and to the non-recurrent tax credits obtained in the Spanish subsidiaries of $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 $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 $1,513.8 million, 35.5% greater than $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 $259.5 million in net income, mainly because of the Corporación Sidenor acquisition.

B. LIQUIDITY AND CAPITAL RESOURCES

Our main source of liquidity is cash generated by operating activities. In 2007, due to a number of acquisitions by us, 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 $256.6 million and in 2007, net proceeds of such short-term investments amounted to $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 $3,318.2 million, $1,454.5 million and $345.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, with a cumulative total for the three years of $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 $9,932.8 million for the three-year period, with $6,178.5 million in 2007, $2,123.7 million in 2006 and $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 $38.8 million for the years of 2007, 2006 and 2005.

The main uses of capital resources in 2007 were: $1,322.6 million for investment in fixed assets, $4,354,7 million for the acquisition of companies in North America, $19.0 million for the acquisition of Sipar Aceros, $25.9 million for the acquisition in Spain, $258.8 million for acquisition in Mexico, $42.9 million for acquisition in Dominican Republic, $92,5 million for acquisition in Venezuela and $10.5 million for acquisition in Brazil, $537.6 million for payment of dividends and interest on capital and $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 $72.0 million and $36.6 million, respectively. In 2006 the main uses of capital resources were:

$1,022.2 million for investment in fixed assets, $214.9 million for the acquisition of companies in North America, $8.0 million for the acquisition of Sipar Aceros, $86.9 million for the acquisition of Siderperú, $204.0 million for the acquisition of Corporación Sidenor and $146.8 million for the acquisition of GSB Acero, $445.3 million for payment of dividends and interest on capital and $1,467.1 million for the repayment of debt. In 2005 the main uses of capital resources were: $690.9 million for investment in fixed assets, $49.6 million for the acquisition of North Star in North America, $16.7 million for the acquisition of Sipar Aceros, $6.7 million for the acquisition of Diaco and $6.2 million for the acquisition of Sidelpa, $420.5 million for payment of dividends and $798.4 million for the repayment of debt. The acquisitions of Diaco and Sidelpa completed in 2005, also had a non-cash impact of $53.6 million resulting from the release of funds previously maintained in trusts.

Resources invested in fixed assets from 2005 to 2007 ($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 $739.3 million, from $4,160.1 million in 2006 to $4,899.4 million in 2007. Between December 31, 2005 and December 31, 2006, net working capital increased by $865.5 million, from $3,294.6 million in 2005 to $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 $9,003.3 million at December 31, 2007 and $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 $1,656.6 million in 2006, to $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 $79.0 million compared to $147.4 million in 2006. This includes foreign exchange income in the amount of $298.0 million in 2007 and $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 $77.9 million at period-end exchange rate). Under the surety, Gerdau guarantees 51.82% ($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 U.S. dollars):

	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 $9,003.3 million. Of this balance, $2,207.2 million (24.5%) was denominated in Brazilian *reais* and $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 $762.8 million. Of this total, $310.0 million related to financing in *reais* and $452.8 million in foreign currencies. In 2007, short-term debt plus the current portion of long-term debt and debentures amounted to $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 $7,563.8 million as of December 31, 2007. Of this total, $7,053.9 million represented loans obtained from financial institutions and from issuance of debt in the market, of which $1,249.7 million was denominated in *reais* and $5,804.2 million in foreign currency. Of total long-term debt, $509.9 million represents debentures in *reais*.

Approximately 33.4% of the $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 $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 $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 $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	**($ million)**
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 ($173.9 million) and a further five Gerdau S.A. debenture issues ($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 $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 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 its subsidiary GTL Trade Finance Inc., issued, on October 22, 2007, ten-year bonds in the amount of $1.0 billion with a maturity date of October 20, 2017. The interest on the bonds is 7.25% per annum, payable on a semiannual basis, with the first payment due in April 20, 2008. 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 $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 $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 our 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 $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 $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 us. 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, we 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 $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 us. 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 $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 $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 $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 $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 $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 $350.0 million to $650.0 million and expires on October 31, 2010.

Our 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 to 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 ($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 $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 reduce its exposure against 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 $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 $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 $(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 $(1.4) million on December 31, 2007.

CAPITAL EXPENDITURES

2005 CAPITAL EXPENDITURES

The Company invested $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 $568.4 million in 2005. A total of $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 $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 $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 $183.4 million on capital expenditures in 2005, compared to $6.8 million in 2004. The Company paid $115.6 million for the acquisition of Diaco and Sidelpa, in Colombia, and $16.7 million for an additional stake in Sipar, Argentina.

Canada and the United States

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

2006 CAPITAL EXPENDITURES

The Company invested $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 $718.2 million in 2006. A total of $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 $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 $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 $255.6 million on capital expenditures and acquisitions in 2006, compared to $153.4 million in 2005. The Company paid $203.1 million for the acquisition of Siderperú, in Peru. The Company invested $13.8 million in Gerdau AZA, $18.4 million in Diaco and Sidelpa, $12.4 million in Gerdau Laisa and $6.6 million in Sipar for the technological upgrades in equipment.

Canada and the United States

Gerdau Ameristeel spent $537.6 million on capital projects and acquisitions in 2006, compared to $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 $194.7 million for the acquisition of Sheffield Steel, Fargo Iron and Metal and Callaway Building Products in 2006.

Europe

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

2007 CAPITAL EXPENDITURES

The Company invested $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 $1,046.1 million in 2007. The Company invested $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 $631.0 million on capital expenditures and acquisitions in 2007, compared to $255.6 million in 2006. The Company paid $258.8 million for the acquisition of Tultitlán, in Mexico, $114.9 million for the acquisition of Industrias Nacionales (INCA) in Dominican Republic and $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 $4.5 billion on capital projects and acquisitions in 2007, compared to $531.6 million in 2006. The Company paid $4.2 billion for the acquisition of Chaparral Steel, in Unites States. Other $53.8 million were expended on acquiring a downstream operation, Enco Materials, in Unites States ($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 $164.4 million in capital projects and acquisitions in Europe, compared to $541.8 million in 2006. The Company paid $25.8 million for the acquisition of Trefilados de Urbina (Trefusa), a specialty steel drawing facility, in Spain. $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 Expenditure Currently in Progress

Gerdau approved, for the period between 2008 through 2010, approximately $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 $ 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 $ millions and in thousand tonnes by region:

$ millions*	**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 doesn t include acquisitions*

1,000 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 6 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 $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 $30.4 million relating to loans by the bank to its customers for purchasing its products.

F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

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

		Payments due by period			
Contractual obligations ($ thousands)	**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 $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.

G. SAFE HARBOR

See Cautionary Statement with respect to Forward Looking Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following is a brief biography of each of the Company Directors and Executive Officers:

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 until December, 2006. 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. From January 2, 2007, he has been served exclusively as a Vice Chairman of the Board of Directors.

CARLOS JOÃO PETRY (67) has worked for the Gerdau Group since 1965. He became an executive officer in 1974 and was appointed to the Board of Directors in 1983. Under the new corporate governance structure, he also became Senior Vice President of the Gerdau Executive Committee until December, 2006. He holds a degree in Philosophy from the Federal University of Rio Grande do Sul. Since January 2, 2007, he has served exclusively as a Vice Chairman of the Board of Directors. On January, 2008, Carlos João Petry resigned from his position as Vice President of the Company and André Bier Gerdau Johannpeter, elected on January 2, 2007, to the position of chief executive officer (CEO), replaced him as the new member of the Board. ***(See Item 8.B Significant Changes for more information).***

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 United States.

ANDRÉ BIER JOHANNPETER (45) has worked for the Gerdau Group since 1980. Recently, he became President of the Company, in the position of Chief Executive Officer (CEO). He holds a degree in Business Administration from the Pontifical Catholic University of Rio Grande do Sul. ***(See Item 8.B Significant Changes for more information).***

CLAUDIO JOHANNPETER (44) joined the Company in 1982. He became an executive officer in 1997, and is currently in the position of Chief Operating Officer (COO). He was awarded a degree in Metallurgical Engineering from the Federal University of Rio Grande do Sul in 1990. ***(See Item 8.B Significant Changes for more information)***.

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 for the Gerdau Group since 1975, He was promoted to Executive Officer in 1993 and since December 2007, he also became of the Gerdau Executive Committee responsible for the Business Operation Long Steel Brazil. He graduated in Metallurgical Engineering from the UFF Universidade Federal Fluminense, Economic Engineering from the Pontifical Catholic University of Rio de Janeiro, and Strategic Marketing from 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.

Family Relationships

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

Arrangements

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election of its officers or directors. There are no pending legal proceedings to which any Company Board Member or Executive Officer is a party 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.

B. COMPENSATION

The employees compensation system is based on two variables: a fixed salary and a variable portion linked to performance.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package incorporates semi-annual and annual goals. The achievement of these goals is measured against clearly specified standards that are intended to motivate individuals and teams.

The human resources policy is based on the acknowledgement and recognition of co-workers as strategic to the business.

The Company conducts evaluations based on several different methodologies, including competence mapping, to track the managerial skills of its executives. Competence mapping aims to identify the degree of alignment of executives with the Company s strategies and business management and to monitor individual development.

In 2007, Directors and Executive officers from Gerdau were paid a total of $33.4 million in salaries and variable remuneration. The variable remuneration 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.

The Company and other related companies in the Gerdau Group co-sponsor pension plans (the Brazilian Plans) covering substantially all employees based in Brazil, including Gerdau Açominas since its consolidation. The Brazilian Plans consists of a plan for the employees of Gerdau and its subsidiaries (Gerdau Plan) and a plan for employees of the former Açominas and its subsidiaries (Gerdau Açominas Plan). The Brazilian Plans are mainly defined benefit plans with certain limited defined contributions. The Company s Canadian and American subsidiaries, including Gerdau Ameristeel, also sponsor defined benefit plans (the North American Plans) that cover the majority of their employees. Contributions to the Brazilian Plans and the North American Plans are based on actuarially determined amounts.

During 2007, Gerdau s contribution to the Gerdau Plan with respect to the executive officers amounted to $43.8 thousand (Basic income program) and an additional $135.0 thousand to the supplementary fund. This sum includes only that portion of contributions for executives who do not currently receive retirement benefits from the Company. These benefits are in no way different from those offered to the other employees of the Company. Each of the first two factors influencing 30% and the third 40% in the amount of the variable remuneration for more or less.

On April 30th, 2003, Gerdau s shareholders approved a new compensation program for executives with strategic positions in the Company known as the Long Term Incentive Program. This new compensation program consists of call options on the Company s Preferred Shares, granted on an annual basis, representing 20% of the annual base salary of each executive and, for the Directors and Executive Offices, an additional entrance bonus equivalent to 30% of the annual salary (the latter was eliminated as from April 28, 2005). From 2005 on, in order to match their potential total compensation to market measures, the Board members were granted a number of shares representing 120% of their base salary. This modification on the long term incentive program was approved by the Compensation and Succession Committee in February 2006. In 2007 the Committee on Remuneration and Succession approved the granting of options to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) in number equivalent to 50% of their annual base salaries. This program aims to attract and secure the long-term commitment of executives by allowing them to share in the growth of the Company, thereby enhancing the sense of participation in the business. (See Item 10. Additional Information B. Memorandum and Articles of Association).

The Compensation and Succession Committee approved the December 2003 stock option grants in 2004, the December 2004 stock option grants in 2005, the December 2005 stock option grants in 2006, the December 2006 stock option grants in 2007 and the December 2007 stock option grants in 2008.

The stock option grants distributed to the Directors and Executive Officers are as follows (see Consolidated Financial Statements Note 25.1 for a complete summary of the stock option plans):

Beginning of vesting period:									
To be exercised from:	**Apr/03**	**Apr/03**	**Dec/03**	**Dec/04**	**Dec/04**	**Dec/05**	**Dec/06**	**Dec/07**	
Must be exercised by:	**Jan/08**	**Jan/06**	**Jan/09**	**Jan/10**	**Jan/08**	**Jan/11**	**Jan/12**	**Jan/13**	**Accumulated**
	Dec/12	**Dec/12**	**Dec/13**	**Dec/14**	**Dec/14**	**Dec/15**	**Dec/16**	**Dec/17**	**Number**
Exercise price per share:	**R$ 5,31**	**R$ 5,31**	**R$ 13,56**	**R$ 21,16**	**R$ 21,16**	**R$ 25,72**	**R$ 35,00**	**R$ 52,38**	**of Shares**
Total Options Granted to Directors and Executive Officers	941,537	1,335,216	353,146	305,246	143,183	642,367	490,721	355,419	4,562,835
Exercised Options	941,537	1,331,216			143,183				2,415,936

Share figures have been retroactively adjusted for all periods to reflect the bonus issue of one share for each share held, approved in April 2004, the bonus issue of one share for every two shares held in April 2005, approved in March 2005 and the bonus issue of one share for every two shares held in April 2006, approved in March 2006.

Employees and Labor Relations

General

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

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 S. A. 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 our 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 $903 thousand in 2007 and $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 $12.2 million and $6.6 million in 2007 and 2006, respectively.

C. BOARD PRACTICES

In November 2006, the Gerdau Group announced a new phase in its corporate governance, marked by the fourth succession in five generations. 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.

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 Gerdau Group has a historical commitment to good corporate governance practices and to strengthening the stock markets, which is why it takes part in Nível 1 of the São Paulo Stock Exchange (Bovespa) Differentiated Corporate Governance program (since 2001 in the case of Gerdau S.A. and 2003 for Metalúrgica Gerdau S.A.).

Furthermore, the Group s listed companies also have an information disclosure policy that defines the criteria guiding investor relations, including the announcement of relevant acts and facts. The aim is to maintain a fast and efficient flow of data while respecting rules of secrecy and confidentiality. This policy covers controlling shareholders, officers and managers, members of the Board of Directors and Board of Auditors and any organs or persons with technical or consultative functions which, as a result of their responsibilities, function or position, have access to information concerning the Group.

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.

Board of Directors: The Board of Directors is responsible for determining the broad direction of the Group s business. The Board may have up to ten members. Three independent members will also participate in the Group s decision-making process. The Board has three Committees: the Corporate Governance, Strategy and Compensation and Succession.

Chairman

Jorge Gerdau Johannpeter

Vice Chairmen (up to December 31, 2007)

Germano Hugo Gerdau Johannpeter

Klaus Gerdau Johannpeter

Frederico Carlos Gerdau Johannpeter***

Carlos João Petry*

*Members/**Colocar em Negrito***

André Bier Gerdau Johannpeter**/***

Independent Members

André Pinheiro de Lara Resende

Affonso Celso Pastore***

Oscar de Paula Bernardes Neto***

Secretary-General

Expedito Luz

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* On January 14, 2008, Carlos João Petry resigned as a member of the Board.

** On January 14, 2008, André Bier Gerdau Johannpeter was elected as a member of the Board.

*** Member of the Compensation and Sucession Committee.

Gerdau Executive Committee: The Gerdau Executive Committee is responsible for coordinating the activities of the executive officers and managing the Company s business, the purpose being to build on the Company s relationship with the market and accompany best corporate governance practices. This structure provides an administrative link between the Board of Directors and the Company s business operations. Its activities are divided into six 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, BO - Latin American Operations and the newly created BO - India Operations. The Gerdau Executive Committee is also responsible for the main functional processes that operate vertically throughout the Group, such as finance, accounting, human resources and planning. Committee members 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.

President, Chief Executive Officer

André Bier 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.

Processes: The Processes consist of Operational Processes and Support Processes. Operational Processes are those directly connected with the final results of the business, such as Marketing and Sales, Industrial Processes, Purchasing, Logistics and Transportation, and Scrap Purchasing. Support Processes are those which provide backup in running the business as a whole: 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.

Business Operations: The Business Operations are managed by executive officers under the coordination of the Gerdau Executive Committee and are structured as follows: BO - Brazil Long Steel Products, BO - Specialty Steel Products which also includes as from 2006 the operations of Corporation Sidenor, BO - Gerdau Açominas (Ouro Branco mill), BO - Gerdau Ameristeel and BO - Latin American Operations and the newly created BO - India Operations. All members of the Board of Directors and the Gerdau Executive Committee, as well as the executive officers, are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the Ordinary General Meeting of Shareholders while members of the Gerdau Executive Committee and executive officers are elected at meetings of the Board of Directors.

(For more information about the new Corporate Governance of Gerdau see item 8 Significant Changes)

Board of Auditors

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% 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% 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, since April 28, 2007.

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.

D. EMPLOYEES

The following table presents information on the geographical distribution of Gerdau s employees:

Direct	Brazil	Overseas	Total
2000	8,436	3,654	12,090
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
2007	11,797	1,890	13,687

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* Outsourced correspond to employees of third-party service providers of Gerdau which provide, as employees of those providers, services directly to Gerdau in areas that are not the core business of Gerdau.

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% are based in Brazil and the remainder at units in South America, North America and Europe, which have 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 of 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 increased as a result of the incorporation of the employees of new acquisitions in Venezuela, Mexico and United States.

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 the general market. The Company also provides its employees with fringe benefits such as health and child care.

Gerdau S. A. 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.

Approximately 38% of Gerdau Ameristeel employees are represented by the United Steelworkers of America (USWA) and other unions under different collective bargaining agreements. The agreements have different expiration dates. During 2006 we reached a new agreement with the employees at our Perth Amboy mill. The Company decertified a USWA local at its rebar fabrication facility in Kansas City, Missouri in December of 2006.

In March 2007, the Company reached new collective bargaining agreements with the employees at the Beaumont, St. Paul and Wilton facilities. In April, the Company reached new collective bargaining agreements with the employees at the Whitby facility. The collective bargaining for these facilities expired in 2005. The Sand Springs and Joliet mills agreements expired in 2006. The collective bargaining agreement with the employees at the Calvert City mill expired in February 2007 and the agreement with the employees at the Company s Manitoba mill expired in May 2007. Although negotiations are ongoing, new agreements have not yet been reached at these facilities.

Although progress continues to be made at all locations, the Company may be unable to successfully negotiate new collective bargaining agreement 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.

E. SHARE OWNERSHIP

The following chart indicates the individual holdings of Preferred and Common Shares of Gerdau for each director and executive officer, as of March 31, 2008. For indirect holdings of our shares by our director and executive officer, see ITEM 7 A major shareholders below.

Shareholder	Common Shares (with voting rights)	%	Preferred Shares (with restricted voting rights)	%
Jorge Gerdau Johannpeter	256	0.00	327,416	0.08
Frederico C. Gerdau Johannpeter	4,294	0.00	4,930,225	1.13
Germano H. Gerdau Johannpeter	1,417	0.00	5,136,449	1.18
Klaus Gerdau Johannpeter	1,479	0.00	4,892,221	1.12
Affonso Celso Pastore		0.00	23,314	0.01
Oscar de Paula Bernardes Neto		0.00	38,220	0.01
André Pinheiro de Lara Resende		0.00	4	0.00
Manoel Vitor de Mendonça Filho		0.00	19,964	0.01
André Bier Johannpeter	16,299	0.01	126,236	0.03
Claudio Johannpeter	15,795	0.01	213,273	0.05
Osvaldo B. Schirmer		0.00	95,174	0.02
Paulo F. B. Vasconcellos	18	0.00	23,650	0.01
Mário Longhi Filho		0.00		0.00
Márcio Pinto Ramos		0.00	1,570	0.00
Expedito Luz		0.00	15,889	0.00
Alfredo Huallen		0.00	175	0.00
Geraldo Toffanello		0.00	15,413	0.01
Nestor Mundstock	292	0.00	16,268	0.01
TOTAL	**39,850**	**0.02**	**15,875,461**	**3.64**

The Company has different employee storck option plans, for each of its subsidiaries. See footnote 25 on our financial statements included herein for further details.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of March 31, 2008, Gerdau had 231,607,008 common shares and 431,189,355 non-voting preferred shares outstanding (excluding treasury stock). Of the two classes of share 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. See the bylaws of Gerdau attached to this Annual Report.

The table below presents certain information as of March 31, 2008, regarding (i) any person known to the Company as the owner of more than 5% of the Company s outstanding common shares, (ii) any person known to the Company as the owner of more than 5% 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 as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	173,459,857	74.89	108,721,797	24.94
Sta. Felicidade Com. Imp. Exp. de Prod. Sid. Ltda.(1)			15,017,722	3.44
BNDES Participações S.A. BNDESPAR	17,104,761	7.39	6,004,882	1.38
Members of the board of directors and executive officers as a group (18 members)	39,850	0.02	15,875,461	3.64

(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 74,89% 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 3.89% and 6.12%, 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. Metalúrgica Gerdau S.A. is controlled indirectly by the Gerdau Johannpeter Roth Family which are controled indirectly by the Gerdau Industries Family.

B. 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 $965.3 million.

(v) The Company usually sells and purchases 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.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The Company s financial statements are included in Item 18.

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 effect on its consolidated financial position of December 31, 2007 individual.

The most significant legal and administrative disputes (involving amounts exceeding $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 thousand of dollars):

	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:

• $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.

• $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.

• $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.

• $19.2 million related to the Emergency Capacity Charge (*Encargo de Capacidade Emergencial* ECE), as well as $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 $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 $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 $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 $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 $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 $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 $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 $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 $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 $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 $7.1 million. Escrow deposits related to these contingencies, at December 31, 2007, amount to $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 ($138,356 thousand). 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

We are 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 $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 $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 $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.

Dividend Distribution Policy

Brazilian Corporate Law generally requires the by-laws of each Brazilian corporation to specify a minimum percentage of the profits for each fiscal year that must be distributed to shareholders as dividends. The law requires a minimum payout of 25% of adjusted net income. Under the Company s bylaws, this percentage has been fixed at no less than 30% of the adjusted net income for distribution for each fiscal year. (See Item 10. Additional Information - 10.A - Dividend Policy).

Dividends for a given fiscal year are payable from (i) retained earnings from prior periods and (ii) after-tax income for the same period, after the allocation of income to the legal reserve and to other reserves (Adjusted Net Income). In order to convert the dividends paid by the Company from *reais* into dollars, the institution providing the Company with custodial services (Custodian) will use the relevant commercial market exchange rate on the date that these dividends are made available to shareholders in Brazil. Under Brazilian Corporate Law, a Brazilian company is required to maintain a legal reserve, to which it must allocate 5% of net income determined in accordance with the Law for each fiscal year until such reserve reaches an amount equal to 20% of the company s paid-in capital. On December 31, 2007, in accordance with Brazilian GAAP, Gerdau S.A. s legal reserve amounted to R$273.5 million ($154.4 million, using the year-end exchange rate) or 2.0% of total paid-in capital of R$7,810.5 million ($4,409.5 million, using the year-end exchange rate).

According to Law 9,457, holders of Preferred Shares in a Brazilian corporation are entitled to dividends at least 10% greater than the dividends paid on Common Shares, unless one of three exceptions described in the Law holds. Gerdau S.A. s executive directors presented a proposal at the 2002 shareholders meeting, to grant both Common and Preferred shares 100% tag-along rights. Shareholders approved this measure and the right was extended to all shareholders, even though the new Brazilian Corporate Law only requires that such rights be granted to the common minority shareholders (and only for 80% of the consideration paid to the controlling shareholders).

Under the recent amendments to the Brazilian Corporate Law, by extending the tag along rights to minority shareholders, the Company no longer needs to comply with the requirement to pay an additional 10% premium on dividends paid to preferred shareholders. Following the approval and implementation of the amendments to the Company s bylaws to provide for the tag-along rights as described above, the Company now pays the stated minimum dividend of 30% of Adjusted Net Profit to all shareholders, from January 1, 2002 dividends paid to preferred shareholders no longer being subject to a minimum 10% premium over those paid to holders of common shares.

As a general requirement, shareholders who are non-resident in Brazil must have their Brazilian company investments registered with the Central Bank in order to be eligible for conversion into foreign currency of dividends, sales proceeds or other amounts related to their shares for remittance outside Brazil. Preferred Shares underlying the ADRs will be held in Brazil by the Custodian as agent for the Depositary Bank (Depositary). The holder of Preferred Shares will be the registered holder recorded in the preferred shares register.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian, on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and deliver the same U.S. dollars to the Depositary for distribution to holders of ADRs. If the Custodian is unable to convert the Brazilian currency received as dividends into U.S. dollars immediately, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by any devaluation or depreciation of the Brazilian currency relative to the U.S. dollar that may occur before such dividends are converted and remitted. Dividends in lieu of the Preferred Shares paid to holders who are not resident in Brazil, including holders of ADRs, are not subject to Brazilian withholding tax.

Interest on Capital Stock

Law 9,249 of December 1995, provides that a company may, at its sole discretion, pay interest on capital stock in addition to, or instead of, dividends. A Brazilian corporation is entitled to pay its shareholders interest on capital stock up to the limit of an amount computed as the TJLP (Long-Term Interest Rate) rate of return on its interest on capital stock or 50% of the net income for the fiscal year, whichever is the larger. The payment of interest as described here is subject to a 15% withholding income tax. See Item 10. Additional Information Taxation.

Dividend Policy

The Company currently intends to pay dividends on its outstanding Preferred Shares at its mandatory distribution rates for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company s financial condition. Although not required to do so by its bylaws, the Company had been paying dividends twice a year in the form of interest on capital stock. On March 31, 2003, the Board of Directors approved a new policy for paying dividends and interest on capital stock on a quarterly basis.

Since 1999, dividends have been paid to holders of the Company s Common and Preferred Shares in *reais* and in U.S. dollars translated from *reais* at the commercial exchange rate on the date of payment. Relevant amounts are described in Item 3 Key Information - Selected Financial Data.

B. SIGNIFICANT CHANGES

Recent Developments

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.

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..

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.

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.

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.

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.

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.

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.

Officers and Directors

André Gerdau Johannpeter, Chief Executive Officer (CEO), assumed the position of Vice Chairman of the Board of Directors in the beginning of 2008, a position previously held by Carlos J. Petry, who has retired. In addition, the Board of Directors will propose to the shareholders, at the shareholders meeting to be held in April 2008, the election of Claudio Gerdau Johannpeter, Chief Operating Officer (COO), as a member of the Board of Directors.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Price Information

Preferred Shares

The following table presents high and low market prices in Brazilian *reais* for Gerdau S.A. preferred shares (GGBR4) on the São Paulo Stock Exchange (BOVESPA) for the indicated periods, as well as the high and low market prices in U.S. dollars (converted at the PTAX exchange rate) for the same period.

Closing Prices GGBR4 Annual Basis (Adjusted for dividends)

	Brazilian reais per Share		US Dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2002	4.74	2.71	1.79	0.85
2003	10.96	3.91	3.96	1.09
2004	19.13	9.31	7.30	3.06
2005	24.29	12.80	10.85	5.28
2006	34.80	24.11	17.29	10.23
2007	54.08	31.23	30.90	14.71

Source: Economática

Closing Prices GGBR4 Quarterly Basis (Adjusted for dividends)

	Brazilian reais per Share		US Dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2005				
1Q	22.25	16.03	8.32	5.94
2Q	18.40	12.95	6.93	5.28
3Q	21.53	12.86	9.49	5.38
4Q	24.98	17.24	10.85	7.68
2006				
1Q	32.30	24.11	16.05	10.23
2Q	34.80	26.80	17.29	11.71

3Q	33.23	27.04	15.91	12.40
4Q	33.93	27.35	16.55	12.93
2007				
1Q	38.31	31.23	19.21	14.81
2Q	48.53	36.33	25.34	17.85
3Q	51.13	39.71	27.74	19.60
4Q	54.08	45.75	30.90	25.40
2008				
1Q	57.39	41.87	34.33	22.88

Source: Economática

Closing Prices GGBR4 Monthly Basis (Adjusted for dividends)

	Brazilian reais per Share		US Dollars per Share	
Year	**High**	**Low**	**High**	**Low**
2007				
August	48.03	39.94	25.65	19.60
September	47.75	42.71	26.09	22.46
October	54.08	48.37	30.90	26.89
November	53.89	45.75	31.28	25.40
December	53.02	47.74	30.26	26.49
2008				
January	51.66	41.87	29.83	23.00
February	53.60	44.97	34.33	25.44
March	57.25	51.34	33.66	30.21
April (through April 8)	63.39	57.07	37.31	32.55

Source: Economática

In the above tables, share prices have been retroactively adjusted for all periods to reflect: (a) the stock bonus of ten shares for three shares held, approved in April 2003, (b) the reverse stock split of one share for 1,000 shares held, approved in April 2003, (c) the stock bonus of one share for every share held approved in April 2004, (d) the stock bonus of one for two shares held approved in March 2005 and (e) a stock bonus of one share for two shares approved in March 2006.

Common and preferred shares are traded in the market, but only the common shares have voting rights. Under the terms of the Company s bylaws, however, specific rights are assured to the non-voting preferred shares. See Gerdau s by laws contained in an exhibit of this document.

ADRs

The following table presents high and low market prices for Gerdau S.A. s ADRs as traded on the New York Stock Exchange (NYSE) for the indicated periods.

Closing Prices GGB Annual Basis (Adjusted for dividends)

	US Dollars per Share	
Year	**High**	**Low**
2002	2.38	1.13
2003	4.55	1.37
2004	8.09	3.54
2005	11.21	5.93
2006	18.10	11.12
2007	31.35	15.19

Source: Bloomberg

Closing Prices GGB Quarterly Basis (Adjusted for dividends)

	US Dollars per Share	
Year	**High**	**Low**
2005		
1Q	9.23	6.71
2Q	7.58	5.81
3Q	10.11	5.87
4Q	11.47	8.15
2006		
1Q	16.65	11.12
2Q	18.10	12.23
3Q	16.01	12.88
4Q	16.36	13.22
2007		

1Q	19.10	15.19
2Q	25.62	18.13
3Q	28.07	19.39
4Q	31.35	25.43
2008		
1Q	30.78	24.34

Source: Bloomberg

Closing Prices GGB Monthly Basis (Adjusted for dividends)

	US Dollars per Share	
Year	**High**	**Low**
2007		
August	25.45	19.14
September	23.40	26.07
October	31.26	26.22
November	31.35	25.43
December	30.00	26.63
2008		
January	30.02	24.34
February	30.78	25.34
March	33.95	30.17
April (through April 8)	37.21	32.66

Source: Bloomberg

The above tables show the lowest and highest market prices of Gerdau s shares since 2001. Share prices have been retroactively adjusted for all periods to reflect: (a) the stock bonus of ten shares for three shares held, approved in April 2003, (b) the reverse stock split of one share for 1,000 shares held, approved in April 2003, (c) the stock bonus of one share for every share held approved in April 2004, (d) the stock bonus of one for two shares held approved in March 2005 and (e) a stock bonus of one share for two shares approved in March 2006.

B. DISTRIBUTION PLAN

Not required.

C. MARKETS

São Paulo stock Exchange - Brasil

Trading on the BOVESPA

The São Paulo Stock Exchange (BOVESPA) is the only stock trade center in Brazil and Latin America s largest stock exchange. Until August, 2007, BOVESPA was a non-profit association owned by its member brokerage firms and trading on the BOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. On August 28, 2007, BOVESPA was subject to a corporate restructuring process that resulted in the creation of BOVESPA Holding S.A., a public corporation which now has, as fully-owned subsidiaries, the São Paulo Stock Exchange S.A. (*Bolsa de Valores de São Paulo S.A. BVSP*) responsible for the operations by the stock exchange and the organized over-the-counter markets and the Brazilian Clearing and Depositary Corporation (*Companhia Brasileira de Liquidação e Custódia*) responsible for the settlement, clearing and depositary services. Such corporate restructuring has consolidated a demutualization process, thereby causing the access to the trading and other services rendered by the BOVESPA not conditioned to a stock ownership.

The BOVESPA s trading is conducted between 10:00 a.m. and 5:00 p.m. on the BOVESPA automated system. There is also trading on the so-called After-Market, a system that allows for evening trading through an electronic trading system. Trades are made by entering orders in the Mega Bolsa electronic trading system, created and operated by BOVESPA. The system places a ceiling on individual orders of R$ 100,000 and price variations are limited to 2% (above or below) the closing quote of the day.

Since March 17, 2003, market making activities have been allowed on the BOVESPA, although there are no specialists or market makers for the Company s shares on this exchange. The CVM and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the BOVESPA may be effected off the exchange under certain circumstances, although such trading is very limited.

Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling shareholders that rarely trade their shares. For this reason, data showing the total market capitalization of the BOVESPA tends to overstate the liquidity of the Brazilian equity market, which is relatively small and illiquid compared to major world markets.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

Trading on the BOVESPA by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. ***See Regulation of Foreign Investments in Brazil*** .

Corporate Governance Practices

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado*, aimed at encouraging Brazilian companies to follow good corporate governance practices and higher levels of transparency, as required by Brazilian Corporate Law. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders rights and enhance the quality of information provided to shareholders.

The Company is listed on the Level 1 segment of the BOVESPA. To become a Level 1 company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (iii) comply with minimum quarterly disclosure standards, including cash flow statements; (iv) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers; (v) disclose the terms of the transactions with related parties; (vi) make a schedule of corporate events available to shareholders; and (vii) at least once a year, hold public meetings with analysts and investors.

Regulation of the Brazilian Securities Market

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by the Brazilian Securities Law (Law 6,385 of December 7, 1976, as amended) and the Brazilian Corporate Law (Law 6,404 of December 15, 1976, as amended).

Law 10,303 of October 31, 2001, amended Law 6,385/76 and Law 6,404/76. The most important changes were (i) the conversion of the CVM into an autonomous governmental agency under the aegis of to the Ministry of Finance, with legal independence and a separate budget, assets and liabilities; (ii) the requirement of greater disclosure by listed companies; (iii) the tag-along right for minority common shareholders in the event of transfer of control of a listed company; (iv) the right of preferred shareholders with non-voting rights or restricted voting rights representing at least 10% of the total stock of a listed company to elect one board member and an alternate (considering that until April 2005, the representative of such shareholders was chosen from a three-name list prepared by the controlling shareholders); (v) the right of the minority common shareholders to elect one board member; and (vi) the condition that preferred shares shall only be permitted to trade on the stock market if they have at least one of the rights mentioned as follows: (a) priority over dividends corresponding to at least 3% of the shares net worth based on the company s last approved balance sheet; (b) the right to receive dividends at least 10% higher than the dividend assigned to each common share; or (c) tag-along rights in the event of transfer of control of the company. Law 11,638, of December 28, 2007, recently amended a number of provisions of Law 6,385/76 and Law 6,404/76, related to accounting rules and financial statements of Brazilian corporations. The new changes aim to bring Brazilian accounting rules/financial statements closer to international standards.

Under the Brazilian Corporate Law, a company is either publicly held, such as Gerdau S.A., or closely held. All publicly held companies must apply for registration with the CVM and one of the Brazilian Stock Exchanges and are subject to ongoing reporting requirements. A publicly held company may have its securities traded either on the BOVESPA or on the Brazilian over-the-counter markets (Brazilian OTC). The shares of a publicly held company, including Gerdau S.A., may also be traded privately subject to certain limitations established in CVM regulations.

There are certain cases that require disclosure of information to the CVM, the BOVESPA, or even the public.

These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the share capital of a publicly held company, (ii) the sale of shares representing the transfer of control of a publicly held company and (iii) the occurrence of a material event to the corporation.

On March 5, 2002, the CVM issued Regulation 361, which regulates tender offers if one of the following events occurs: (i) delisting of companies; (ii) an increase in the equity interest of the controlling shareholder; or (iii) the transfer of control of a public held company.

The Brazilian OTC market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a publicly held company to be traded on the Brazilian OTC. The CVM must be notified of all trades carried out on the Brazilian OTC by the company s respective intermediaries. The trading of a company s securities on the BOVESPA may be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM on the basis of a belief that a company has provided inadequate information regarding a material event, has not provided an adequate response to the inquiries by the CVM or the stock exchange, or for other reasons.

The laws and regulations regarding the Brazilian Securities Market provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or those in certain other jurisdictions.

Regulation of Foreign Investment in Brazil

Foreign investors may either register their investments in our common shares as a foreign direct investment under Law No. 4,131/62 and Central Bank Circular No. 2,997/00 or as a portfolio investment under CMN Resolution No. 2,689/00 and CVM Instruction No. 325/00, both as amended. Foreign investors, regardless of whether their investments are made as foreign direct investments or portfolio investments, must be enrolled with the SFN pursuant to its Regulatory Instruction No. 568/05. This registration process is undertaken by the investor s legal representative in Brazil.

Law No. 4,131/62 and Central Bank Circular No. 2,997/00 provide that after a foreign direct investment is made, an application for its registration with the Central Bank must be submitted by the investee and the non-resident investor, through its independent representatives in Brazil, within 30 days. The registration of the foreign direct investment with the Central Bank allows the foreign investor to remit abroad resources classifiable as capital return, resulting either from: (i) the transfer of corporate interests to Brazilian residents, (ii) capital reduction, or (iii) the liquidation of a company, as well as funds classified as dividends, profits or interest on shareholders equity. Foreign investors with foreign direct investments may also divest those investments through private transactions or transactions conducted through the stock exchange or the over-the-counter market and are generally subject to less favorable tax treatment as compared to foreign investors through investments in portfolios pursuant to CMN Resolution No. 2,689/00 and CVM Instruction No. 325/00. See Taxation Brazilian Tax Considerations.

There are no restrictions on ownership of our common shares by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of the shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment regulations which generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM. Foreign investors may register their investment in our common shares under Law No. 4,131/62 or under CMN Resolution No. 2,689/00. CMN Resolution No. 2,689/00 affords favorable tax treatment to non-Brazilian investors who are not residents in a tax-haven jurisdiction (*i.e.*, countries that do not impose income tax or where the maximum income tax rate is lower than 20%), as defined by Brazilian tax laws. See Taxation Brazilian Tax Considerations for further description of tax incentives extended to non-Brazilian holders who qualify under CMN Resolution No. 2,689/00.

With certain limited exceptions, CMN Resolution No. 2,689/00 investors are permitted to carry out any type of transaction in the Brazilian financial capital markets involving a security traded on a stock, futures or organized over-the-counter markets. Investments and remittances outside Brazil of gains, dividends, profits or other payments under our common and preferred shares are made through the exchange market.

Under CMN Resolution No. 2,689/00, a non-Brazilian investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investment;

- register as a non-Brazilian investor with the CVM; and
- register its foreign investment with the Central Bank.

Securities and other financial assets held by non-Brazilian investors pursuant to CMN Resolution No. 2,689/00 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Trading on Exchanges outside Brazil

In addition to the BOVESPA, Gerdau shares are traded on two other exchanges:

New York Stock Exchange

On March 10, 1999, Gerdau S.A. obtained registration for the issuance of Level II ADRs, which began trading on the New York Stock Exchange the same day. Under the GGB symbol, these Level II ADRs have been traded in virtually every session since the first trading day. In 2007, 550.3 million ADRs were traded, a figure 47.3% higher than in 2006, representing a trading volume of $13.0 billion, equivalent to a daily average of $51.8 million.

Latibex Madrid Stock Exchange

Since December 2, 2002, Gerdau S.A. s preferred shares have been traded on the Latibex, the segment of the Madrid Stock Exchange devoted to Latin American companies traded in Euros. Following approval by the CVM and the Brazilian Central Bank, this date marked the beginning of the Depositary Receipts (DR) Program for preferred shares issued by the Company in Spain. The shares are traded in Spain under the symbol XGGB in the form of DRs, each corresponding to one preferred share. This participation in the Latibex boosted the Company s visibility in the European market and brought increased liquidity to its shares on the BOVESPA, as each unit traded in Madrid generates a corresponding operation on the BOVESPA. In 2007, a total of 1.4 million Gerdau preferred shares were traded on the Madrid Stock Exchange (Latibex), representing a trading volume of 32.4 million.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The information required for this item was included in the Registration Statement in Form 20-F filed on June 30, 2005 (Commission file number 1-14878). The by-laws did not change since the last Form 20-F filed on May 31, 2007 (Comission file number 1-14878). The full, consolidated document can be found as an exhibit to this report.

Summary of Special Conditions Relating to Directors and Officers

Although the by-laws do not specifically address this matter, the Company and its directors and officers are obliged to adhere the provisions of Law 6.404/76, which regulates corporations in Brazil. In general terms, article 153 of the Corporate Law establishes that in exercising his/her duties, a company director or officer shall employ the care and diligence which an active person of integrity normally employs in the administration of his/her own affairs.

Article 154, paragraph 2 of the Corporate Law, states that directors and officers shall not: a) perform an act of liberality at the expense of the company; b) borrow money or property from the company or use company property, services or credits for his/her own advantage or for the advantage of any entity in which he/she/any third party has an interest without the prior approval of a General Shareholders Meeting or the Board of Directors; c) by virtue of his/her position, receive any type of direct or indirect personal benefit unless according to the Company s by-laws or a General Shareholders Meeting.

In more specific terms, as outlined in the paragraph 1 of article 156 of the same law, a director or an officer may only perform transactions with the Company under reasonable and fair conditions, identical to the conditions prevailing in the market, or in situations under which the Company would contract with third parties, including occasional loan agreements between the Company and its directors or officers.

Article 152 of the Corporate Law states that the General Shareholders Meeting shall establish the financial compensation of directors and officers as well as any benefits and representational allowances. Article 146 of Law 6,404/76 establishes that the members of the Company s Board of Directors must be shareholders, and that they must own at least one share in the Company. There is no by-law or legal rule as to any mandatory employment limit date or retirement age for directors and officers. In addition to enforcing the pertinent legal provisions, the Company also observes the rules and corporate governance recommendations of the São Paulo Stock Exchange (Information regarding the differentiated corporate governance levels was included in the Registration Statement on Form 20-F dated June 30, 2004 - Commission file number 1-14878).

Adherence to these rules is consolidated in a contract in which the Company and its directors and officers agree to enforce the relevant regulations, which establish that the company shall submit to the São Paulo Stock Exchange and disclose information on any contract established between the Company and its controlled and associated companies, senior managers and the controlling shareholder; between the Company and the subsidiary or associated companies of its senior managers and the controlling shareholder; and between the Company and any other companies that form a de facto or de jure group with the entities mentioned above, whenever a single contract, or a series of related contracts, with or without the same purpose, equals or exceeds R$ 200,000.00 within any one-year period, or equals or exceeds an amount equal to one percent of the company s net equity, whichever is higher.

When submission or disclosure of information is required, the information must detail the scope of the contract, its term of effectiveness and value, the conditions for termination and accelerated expiration and any influence that such a contract may have on the company s management and business. This issue is also covered in the Gerdau Ethical Guidelines, which outline and consolidate the rules guiding the behavior of the Gerdau Group and its employees, as described in item 16 B of this document, and also available at www.gerdau.com.br Gerdau s officers must abide by the Gerdau Ethical Guidelines, both internally and when representing the Company. They must act in accordance with standards that reflect their personal and professional integrity and are compatible with the bond they have established with the Company and society at large. They must carefully evaluate situations involving conflicts between personal interests and those of the Company, and carry out in the Company s best interests all activities involving Company resources, property, services or credits, reporting any private activities that may interfere or conflict with the Company s interests, disclosing the extent and nature of such activities, maintaining their loyalty to the Company, and refraining from using privileged information concerning business opportunities to their own benefit or to the benefit of others, regardless of whether these are to the advantage or the disadvantage of the Company.

C. MATERIAL CONTRACTS

For information concerning material contracts regarding acquisition of assets, see Item 4 Company Information, Item 5 Operating and Financial Review and Prospects and Item 8 Financial Information. Gerdau S.A. has entered into financial agreements in order to finance its expansion projects and also improve its debt profile. Although some of these contracts entail significant amounts, none exceeds 10% of the Company s consolidated total assets. The most significant financial agreements are described below, with the Company undertaking to provide a copy of the debt instruments described herein to the Securities and Exchange Commission upon request.

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 $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 facility 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 entered into a $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, with two grace years and eight years for repayment, and the annual interest rate is LIBOR plus 0.30%. The facility is meant to cover part of Gerdau Açominas production capacity expansion plan through 2007. At December 31, 2007, the total amount was drawn against this facility.

Sinosure

On October 14, 2005, Gerdau Açominas entered into a $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, with three grace years and nine years for repayment, and the interest rate payable is equal to LIBOR plus 0.675% per annum. The facility is guaranteed by the Company. At December 31, 2007, $164.0 million was drawn against this facility.

With respect to the Sinosure financing, a $50 million Commercial Loan Facility was agreed by Gerdau Açominas and BNP Paribas on June 15, 2005 to finance the outstanding 15% of the amount of the aforementioned commercial contracts and 100% of the Sinosure Insurance Premium. The tenor is five years and the interest rate is LIBOR plus 0.20% p.a., with a local interest fee of 1.30% p.a. This facility is guaranteed by Gerdau S.A.

Guaranteed Perpetual Senior Securities

On September 15, 2005, the Company issued $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, Gerdau, through Gerdau Açominas signed a $240 million financing agreement. ABN AMRO Bank led and structured the transaction which was funded by ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi and UFJ Bank Limited. The full term of the loan is seven years with a grace period of two years and five years amortization. Nippon Export and Investment Insurance (NEXI), a credit insurance agency linked to the Japanese government, covers 97.5% of the political risk and 95% of the commercial risk. Political risk reflects Brazilian government policies on cross-border payments, while commercial risk reflects the Company s ability to meet its commitments. The first tranche of $32.0 million of this agreement was placed in January 2005 at an annual funding cost of LIBOR + 0.5%. The agreement has a two-year grace period from the contract signature date, semi-annual amortization and a final maturity date in 2011.

Senior Notes and Senior Secured Credit Facility

On June 27, 2003, Gerdau Ameristeel refinanced most of its outstanding debt by issuing $405.0 million of 10 3/8% Senior Notes and entering into a $350.0 million Senior Secured Credit Facility with a syndicate of lenders.

In October 2005, Gerdau Ameristeel amended and restated its senior secured revolving credit facility. The facility has a 5-year term and increased the existing revolving credit line from $350 million to $650 million.

The proceeds 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 liquidity are cash flow generated from operations and borrowings under the new Senior Secured Credit Facility.

Gerdau Ameristeel believes these sources will be sufficient to meet its cash flow requirements. The principal liquidity requirements are working capital, capital expenditures and debt service. Gerdau Ameristeel does not have any off-balance sheet financing arrangements or relationships with unconsolidated special purpose entities.

The following is a summary of existing credit facilities and other long-tem debt:

Senior Secured Credit Facility: on October 31, 2005, Gerdau Ameristeel completed an amendment and restatement of the Senior Secured Credit Facility. The Senior Secured Credit Facility provides commitments of up to $650.0 million and expires in October 2010. Gerdau Ameristeel will be able to borrow under the Senior Secured Credit

Facility for the lesser of (i) the committed amount, and (ii) the borrowing base (which is based upon a portion of the inventory and accounts receivable held by most of Gerdau Ameristeel s operating units less certain reserves), minus outstanding loans, letter of credit obligations and other obligations owed under the Senior Secured Credit Facility. Since the borrowing base under the Senior Secured Credit Facility will be based on actual inventory and accounts receivables, available borrowings under the facility will fluctuate. The borrowings under the Senior Secured Credit Facility are secured by Gerdau Ameristeel s inventory and accounts receivable.

Loans under the Senior Secured Credit Facility bear interest at a per annum rate equal to one of several rate options (LIBOR, Federal Funds Rate, bankers acceptances or prime rate) based on the facility chosen at the time of borrowing plus an applicable margin determined by excess availability from time to time. Borrowings under the Senior Secured Credit Facility may be made in U.S. dollars or Canadian dollars, at the option of Gerdau Ameristeel. The Senior Secured Credit Facility contains restrictive covenants that limit the company s ability to engage in specified types of transactions without the consent of the lenders. These covenants may limit Gerdau Ameristeel s ability to, among other things: incur additional debt, issue redeemable stock and preferred stock, pay dividends on the Company s common shares, sell or otherwise dispose of certain assets and enter into mergers or consolidations.

At December 31, 2007, 2006 and 2005, there were no borrowings under the facility, and there was $544.1 million available under the Senior Secured Credit Facility compared to $27.0 million borrowed and $295.0 million available at December 31, 2004.

Senior Notes: on June 27, 2003, Gerdau Ameristeel issued $405.0 million of 10 3/8% Senior Notes, of which $35.0 million were sold to an indirect wholly-owned subsidiary of Gerdau Ameristeel s parent, Gerdau S.A. The notes mature on July 15, 2011. The notes were issued at 98% of face value. The notes are unsecured and are effectively junior to secured debt to the extent of the value of the assets securing such debt, rank equally with all existing and future unsecured unsubordinated debt, and are senior to any future senior subordinated or subordinated debt.

Interest on the notes accrues at 10 3/8% p.a. (10.75% effective rate) and is payable semi-annually on July 15 and January 15. At any time prior to July 15, 2006, Gerdau Ameristeel had the right to redeem up to 35% of the original principal amount of the notes with the proceeds of one or more equity offerings of common shares at a redemption price of 110.75% of the principal amount of the notes, together with accrued and unpaid interest, if any, on the date of redemption. The indenture governing the notes permits Gerdau Ameristeel and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness, subject to certain limitations. On January 23, 2004, Gerdau Ameristeel completed an exchange of the Senior Notes. The exchanged notes have substantially the same form and terms as the original notes issued on June 27, 2003. The exchanged notes were issued under a prospectus in Ontario and the exchanged notes and subsidiary guarantees were registered under the U.S. Securities Act of 1933, as amended, and are not subject to restrictions on transfer.

On October 22, 2007, the Company closed on a $1.0 billion ten-year bond offering in the international capital markets through its wholly-owned subsidiary GTL Trade Finance Inc. The bonds are unconditionally and irrevocably 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 majority of buyers of the bonds were asset managers, insurance companies and pension funds. The net proceeds from the sale of the bonds were used for the repayment of the Company s short-term indebtedness incurred in connection with the Chaparral Steel acquisition and for the Company s general corporate purposes.

Acquisition of Corporación Sidenor, S.A.

On November 15, 2005, the subsidiary Gerdau Hungria Holdings signed, together with two Spanish companies, one of them a company belonging to the Santander Group, and other composed of the main executives of the administration of the Sidenor Group, as purchasers, and Industria Férricas del Norte Inversiones, S.L., as the seller, a purchase agreement for the acquisition of all the capital stock of Corporación

Sidenor, S.A., in Spain.

The composition of the capital stock of Corporación Sidenor S.A. was divided as follows: 40% is held by the Company, 40% is held by the Santander Group and the remaining 20%, by Sidenor executives holding company.

The amount agreed upon for the acquisition of the entire capital stock is Euro 443.8 million, in addition to a variable portion depending 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. Those amounts to be paid under a variable contingent price will be accounted for as additional purchase price consideration once the contingencies are resolved. Current best estimated of total contingent price as of December 31, 2006 amounts to $106.9 million.

Santander Group holds a put option to sell their interest in Sidenor to the Company after 5 years from acquisition date at a fixed price plus accrued interest computed at a fixed interest rate The Company has also agreed to guarantee to the Santander Group the payment of an amount (equal to the fixed price under the put option, which is computed as 40% of the initial purchase price, plus accrued interest computed using the same fixed interest rate) after 6 years from acquisition 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 called by the Santander Group at any time after 6 years.

Financing for Chaparral Acquisition

On September 14, 2007, Gerdau Ameristeel, acting through its wholly owned subsidiary GNA Partners, GP borrowed $1.15 billion under a bridge loan facility to provide the resources necessary to conclude the acquisition of Chaparral Steel. This bridge loan facility was satisfied in full as of December 31, 2007. In addition, on the same date Gerdau Ameristeel acting through its wholly-owned subsidiaries Gerdau Ameristeel US Inc. and GNA Partners, GP entered into a $2.75 billion term loan facility comprised of (i) a five-year tranche of $1.25 billion, (ii) a six-year tranche of $1.0 billion, and (iii) a five-year tranche of $500.0 million. The term loan facility is guaranteed by the Company, Gerdau Ameristeel, Gerdau Açominas, Gerdau Açominas Overseas Ltd., Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços.

D. EXCHANGE CONTROLS

There are no restrictions on ownership or voting of the Company s paid-in capital by individuals or legal entities domiciled outside Brazil. The right to convert dividend payments and proceeds from the sale of the Company s paid-in capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally require, among other things, the prior registration of the relevant investment with the Central Bank.

In Brazil, a mechanism is available to foreign investors interested in trading directly on the São Paulo Stock Exchange. Until March 2000, this mechanism was known as Annex IV Regulations, in reference to the Annex IV of Resolution 1,289 of the National Monetary Council (Annex IV Regulations). Currently, this mechanism is regulated by Resolution 2,689, of January 26, 2000, of the National Monetary Council and by CVM Instruction 325, of January 27, 2000, as amended (Regulation 2,689).

Regulation 2,689, which took effect on March 31, 2000, establishes new rules for foreign investments in Brazilian equities. Such rules allow foreign investors to invest in almost all types of financial asset and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled.

Pursuant to Regulation 2,689, foreign investors are defined as individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. Regulation 2,689 prohibits the offshore transfer or assignment of title to the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to Regulation 2,689, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with the CVM; and (iv) register the foreign investment with the Central Bank. The securities and other financial assets held by the foreign investor pursuant to Regulation 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading is restricted to transactions carried out on exchanges or organized over-the counter markets licensed by the CVM. All investments made by a foreign investor under Regulation 2,689 will be subject to electronic registration with the Central Bank.

Resolution 1,927 of the National Monetary Council, which is the Amended and Restated Annex V to Resolution 1,289 (Annex V Regulations), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Since ADRs have been approved under the Annex V Regulations by the Central Bank and the CVM, the proceeds from the sale of the ADRs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADRs will be entitled to favorable tax treatment. According to the 2,689 Regulation, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by Regulation 2,689 and vice versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

A foreign investment registration has been made in the name of The Bank of New York, as Depositary for the Preferred ADRs (Depositary), and is maintained by Banco Itaú S.A. (Custodian) on behalf of the Depositary. Pursuant to the registration, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Preferred Shares represented by Preferred ADRs into foreign currency and remit the proceeds abroad. In the event that a holder of Preferred ADRs exchanges Preferred ADRs for Preferred Shares, such a holder will be entitled to continue to rely on the Depositary s registration of foreign investment for only five business days after such exchange, after which time, the same holder must seek its own registration with the Central Bank.

Thereafter, unless the Preferred Shares are held pursuant to the Resolution 2,689 by a foreign investor, the same holder may not be able to convert into foreign currency and remit the proceeds outside Brazil from the disposal of, or distributions with respect to, such Preferred Shares, and will generally be subject to less favorable Brazilian tax treatment than a holder of Preferred ADRs.

Restrictions on the remittance of foreign capital overseas could hinder or prevent the Custodian, as custodian for the Preferred Shares represented by Preferred ADRs or holders who have exchanged Preferred ADRs for Preferred Shares from converting dividends, distributions or the proceeds from any sale of Preferred Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of Preferred ADRs could be adversely affected by delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying the Preferred ADRs.

Exchange Rates

Before March 2005, there were two legal foreign exchange markets in Brazil, the Commercial Market and the Floating Market. The Commercial Market was reserved primarily for foreign trade transactions and transactions that generally require previous approval from Brazilian monetary authorities, such as the purchase and sale of registered investments by foreign individuals and related remittances of funds overseas. The Commercial Rate was the commercial exchange rate for Brazilian currency into U.S. dollars as reported by the Central Bank. The Floating Rate was the prevailing exchange rate for Brazilian currency into U.S. dollars, and was applicable to transactions to which the Commercial Rate did not apply.

Through Resolution 3,265 of March 4, 2005 (which took effect on March 14, 2005), the National Monetary Council introduced a single foreign exchange market and abolished the legal differences between the referred Commercial and Floating Markets. Among the modifications to foreign exchange market rules is a greater freedom to remit funds abroad through the foreign exchange market. On the other hand, the so-called CC5-Accounts , which are bank accounts in *reais* held in Brazil by foreign entities, may no longer be used to transfer funds on behalf of third parties.

The Company will make all cash distributions on Preferred Shares in *reais* and consequently exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADRs on conversion by the Depositary. Fluctuations in the U.S. dollar/*real* exchange rate may also affect the U.S. dollar equivalent of the Preferred Share price in *reais* on the Brazilian stock exchanges.

E. TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of a Preferred Share and a Preferred ADR. It does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase those securities. In particular, this summary deals only with holders that will hold Preferred Shares or Preferred ADRs as capital assets (generally, property held for investment) and does not address the tax treatment of a holder that may be subject to special tax rules, like a bank, an insurance company, a dealer in securities, a person that will hold Preferred Shares or Preferred ADRs in a hedging transaction or as a position in a straddle , conversion transaction or other integrated transaction for tax purposes, a person that has a functional currency other than the U.S. dollar, a person liable for alternative minimum tax, a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) or a person that owns or is treated as owning 10% or more of the voting shares of the Company. Each prospective purchaser of a Preferred Share or Preferred ADR should consult his own tax advisers as to the personal tax consequences of his investment, which may vary for investors in different tax situations.

The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements as in effect on the date hereof. Those authorities are subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax authorities of the two countries have had discussions that may culminate in a treaty.

No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the US holders of Preferred Shares or Preferred ADRs. This summary is also based upon the representations of the Depositary (as defined below) and on the assumption that each obligation in the Deposit Agreement relating to the Preferred ADRs and any related documents will be performed in accordance with its terms.

Brazilian Tax Considerations

The following discussion summarizes the material Brazilian tax consequences of the ownership and disposal of Preferred shares or Preferred ADRs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of Preferred Shares that has registered its investment in such securities with the Central Bank as a U.S. dollar investment (in each case, a non-Brazilian holder). The following discussion does not specifically address every Brazilian tax consideration applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in this kind of security.

Taxation of Dividends

Dividends paid with respect to income earned since January 1, 1996, including dividends paid in kind (i) to the Depositary in respect of the Preferred Shares underlying the Preferred ADRs or (ii) to a non-Brazilian holder in respect of Preferred Shares, are not subject to any withholding tax in Brazil.

Taxation of Gains

Gains realized outside Brazil by a non-Brazilian holder on the disposal of Preferred ADRs to another non-Brazilian holder are not subject to Brazilian tax, subject to the uncertainties arising from Provisional Measure 135, of October 30, 2003, converted into Law 10,833 of December 29, 2003. Pursuant to Law 10,833/03, gains realized on the disposal of any assets located in Brazil, by residents or nonresidents of Brazil, inside or outside Brazil, are subject to Brazilian income tax, which is to be paid by the relevant purchaser or, in case of a non-Brazilian purchaser, by its legal representative in Brazil. The above-mentioned provision would appear to simply transfer the obligation for payment of the tax from the seller to the purchaser (or its legal representative). However, in practice, before the above-mentioned provision, gains realized on sales of Brazilian assets that occurred abroad between two non-Brazilian residents were not subject to tax by the Brazilian tax authorities. Based on this referred provision, the Brazilian tax authorities may claim that transactions between nonresidents involving sales of Preferred ADRs are taxable in Brazil, but there are good grounds to argue that Preferred ADRs are not subject to such taxation because they do not fall within the concept of assets located in Brazil. The withdrawal of Preferred Shares in exchange for Preferred ADRs is not subject to Brazilian tax. On receipt of the underlying Preferred Shares, a non-Brazilian holder who qualifies under Regulation 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below. When Preferred Shares are registered under Regulation 2,689, a non-Brazilian holder cannot transfer or assign them abroad. The deposit of Preferred Shares in exchange for Preferred ADRs is not subject to Brazilian tax provided that the Preferred Shares are registered by the investor or its agent under Regulation 2,689. In the event of the Preferred Shares not being so registered, the deposit of Preferred Shares in exchange for Preferred ADRs may be subject to Brazilian tax at the rate of 15%. As a general rule, non-Brazilian holders are subject to a withholding tax imposed at a rate of 15% on gains realized on sales or exchanges of Preferred Shares that occur off the BOVESPA. In the case of non-Brazilian holders that are residents of a tax haven - i.e., a country that does not impose income tax or imposes income tax at a rate lower than 20% -, the gains are taxed at a rate of 25%. Non-Brazilian holders are subject to withholding tax at the rate of 15% on gains realized on sales in Brazil of Preferred Shares that occur on the BOVESPA unless such a sale is made under Regulation 2,689. Gains realized arising from transactions on the BOVESPA by an investor under the Regulation 2,689 are not subject to tax except if the investor is resident in a tax haven, in which case, gains realized are taxed at a rate of 15%. There can be no assurance that the current tax treatment under Regulation 2,689 for holders of Preferred ADRs and non-Brazilian holders of Preferred Shares that are not residents of a tax haven will be maintained in the future. The gain realized as a result of a transaction on the BOVESPA is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost measured in Brazilian currency, without any correction for inflation, of the shares sold. The gain realized as a result of a transaction that occurs off the BOVESPA is the positive difference between the amount realized on the sale or exchange and the acquisition cost of the Preferred Shares, with both values to be accounted for in *reais*. There are grounds, however, for maintaining that the gain realized should be calculated on the basis of the foreign currency amount registered with the Central Bank. Any exercise of preemptive rights relating to Preferred Shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to Preferred Shares by the Depositary on behalf of holders of Preferred ADRs will be subject to Brazilian income taxation at the rate of 15%, unless such sale or assignment is carried out on the BOVESPA, in which case the gains are exempt from Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to Preferred Shares will be subject to Brazilian income tax at the rate of 15%, unless such transaction involves non-Brazilian holders, residents of a tax haven, in which case the gains referred hereto will be subject to Brazilian income taxation at the rate of 25%.

Interest on Capital Stock

Distribution of interest on capital stock with regard to the Preferred Shares as an alternative form of payment to shareholders that are either Brazilian residents or non-Brazilian residents, including holders of ADRs, are subject to Brazilian withholding tax at the rate of 15%. In the case of non-Brazilian residents that are residents of a tax haven, the income tax rate is 25%. Currently, such payments are tax deductible by the Company in determining social welfare contributions and income tax. (See Item 8.A. Financial Information Interest on Capital Stock).

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposal of Preferred Shares or Preferred ADRs by a non-Brazilian holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of Preferred Shares or Preferred ADRs. Until December 31, 2007, fund transfers in connection with financial transactions carried on in Brazil were subject to a temporary tax (CPMF tax). Pursuant to Law 9,311, of October 24, 1996, and Constitutional Amendment 42, of December 19, 2003, such CPMF tax was levied at a rate of 0.38%. However, as the expiration term of the CPMF tax was set to expire on December 31, 2007, and Congress decided not to postpone such term, financial transactions carried on as of January 1, 2008, are no longer subject to the CPMF tax. A financial transaction tax (IOF tax) may be imposed on a variety of transactions, including the conversion of Brazilian currency into foreign currency. Until January 2, 2008, the IOF tax rate on such conversions was 0%, but, with the end of the CPMF tax, Government increased such rate to 0.38%, effective as of January 3, 2008 (as provided by Decree 6,339, of January 3, 2008). IOF tax in such case is applied on the Brazilian currency amount of the foreign exchange transaction, and shall be collected by the financial institution that carries on the transaction. However, as provided by Decree 6,306, of December 14, 2007 (as amended by Decree 6,391, of March 12, 2008), IOF tax will not be levied upon the conversion of Brazilian currency into foreign currency in connection with the inflow and/or outflow of funds invested by foreign investors in securities that generate variable or contingent income (e.g. Preferred Shares) negotiated in Brazilian stock exchanges, as long as such investments are made in accordance with the rules set forth by the National Monetary Council (*Conselho Monetário Nacional* - CMN). This exemption applies not only as regards the inflow and/or outflow of funds in connection with the acquisition or disposition of the relevant security, but also as regards the outflow of funds in connection with the payment of dividends and/or interest on capital stock by Brazilian entities to its foreign investors. The Minister of Finance has the legal power to further increase the rate of such tax to a maximum of 25%, but any additional increase will be applicable only on a prospective basis. IOF may also be levied on transactions involving bonds or securities (IOF/Títulos) even if the transactions are effected on Brazilian stock, futures or commodities exchanges. The rate of the IOF/Títulos with respect to Preferred Shares and ADRs is currently 0%. The Minister of Finance nevertheless has the legal power to increase the rate to a maximum of 1.5% of the amount of the taxed transaction per day of the investor s holding period, but only to the extent of the gain realized on the transaction and only on a prospective basis.

Registered Capital

The amount of an investment in Preferred Shares held by a non-Brazilian holder registered with the CVM under Regulation 2,689, or in ADRs held by the Depositary representing such holder, as the case may be, is eligible for registration with the Central Bank. Such registration (the amount so registered is referred to as Registered Capital) allows the remittance abroad of foreign currency, converted at the Foreign Exchange Market rate, acquired with the proceeds of distributions, and amounts realized with respect to the disposal of the same Preferred Shares. The Registered Capital for Preferred Shares purchased in the form of a Preferred ADR, or purchased in Brazil and deposited with the Depositary in exchange for a Preferred ADR, will be equal to the price (in U.S. dollars) paid by the purchaser. The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADRs will be the U.S. dollar equivalent of (i) the average price of the Preferred Shares on the BOVESPA on the day of withdrawal, or (ii) if no Preferred Shares were sold on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding the same withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Foreign Exchange rates quoted by the Central Bank on the same date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares). A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

United States Tax Considerations

U.S. Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relating to the purchase, ownership and disposition of Preferred Shares or Preferred ADRs by a U.S. holder (as defined below) holding such shares or ADRs as capital assets (generally, property held for investment). This summary is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the IRS) and judicial decisions, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This summary does not describe any state, local or non-U.S. tax law considerations, or any aspect of U.S. federal tax law other than income taxation; U.S. holders are urged to consult their own tax advisors regarding such matters.

This summary does not purport to address all material U.S. federal income tax consequences that may be relevant to a U.S. holder of a Preferred Share or Preferred ADR, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company s voting stock, investors that hold the Preferred Shares or Preferred ADRs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. holders whose functional currency is not the U.S. dollar) may be subject to special tax rules.

As used below, a U.S. holder is a beneficial owner of a Preferred Share or Preferred ADR that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity taxable as a corporation) created or organized under the law of the United States, any State thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. For purposes of this discussion, a non-US holder is a beneficial owner of a Preferred Share or Preferred ADR that is (i) a nonresident alien individual, (ii) a corporation (or an entity taxable as a corporation) created or organized in or under the law of a country other than the United States or a state thereof or the District of Columbia or (iii) an estate or trust that is not a U.S. holder. If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Preferred Share or Preferred ADR, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of a Preferred Share or Preferred ADR that is a partnership and partners in that partnership are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of purchasing, holding and disposing of Preferred Shares or Preferred ADRs.

Nature of Preferred ADRs for U.S. Federal Income Tax Purposes

In general, for U.S. federal income tax purposes, a holder of a Preferred ADR will be treated as the owner of the underlying Preferred Shares. Accordingly, except as specifically noted below, the tax consequences discussed below with respect to Preferred ADRs will be the same for Preferred Shares in the Company, and exchanges of Preferred Shares for Preferred ADRs, and Preferred ADRs for Preferred Shares, generally will not be subject to U.S. federal income tax.

Taxation of Distributions

U.S. holders: In general, subject to the passive foreign investment company (PFIC) rules discussed below, a distribution on a Preferred ADR (which for these purposes likely would include a distribution of interest on shareholders equity) will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from the Company s current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds the amount of the Company s current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder s tax basis in the Preferred ADR on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. The Company does not intent to calculate its earnings and profits under U.S. federal income tax principles. Therefore, U.S. holder should expect that a distribution on a Preferred ADR generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The Company does not intend to calculate its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution on a Preferred ADR generally will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. For purposes of this discussion, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a Preferred ADR (which will include the amount of any Brazilian taxes withheld) generally will be subject to U.S. federal income tax as foreign source dividend income and will not be eligible for the corporate dividends received deduction. The amount of a dividend paid in Brazilian currency will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day that the U.S. holder receives the dividend or, in the case of a dividend received in respect of a Preferred ADR, on the date the Depositary receives it, whether or not the dividend is converted into U.S. dollars. A U.S. holder will have a tax basis in any distributed Brazilian currency equal to its U.S. dollar amount on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency generally will be treated as U.S. source ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the date they are received by a U.S. holder or the Depositary or its agent, as the case may be, the U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders are urged to consult their own tax advisers regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by the U.S. holder or the Depositary or its agent is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for short-term and hedged positions, any dividend that an individual receives on a Preferred ADR in a taxable year beginning before January 1, 2011 will be subject to a maximum tax rate of 15% if the dividend is a qualified dividend. A dividend on a Preferred ADR will be a qualified dividend if (i) the Preferred ADRs are readily tradable on an established securities market in the United States, and (ii) the Company was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company (PFIC). The Preferred ADRs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not entirely clear whether a dividend on a Preferred Share will be treated as a qualified dividend, because the Preferred Shares themselves are not listed on a U.S. exchange. Based on the Company s audited financial statements and relevant market and shareholder data, the Company does not believe that it was a PFIC for U.S. federal income tax purposes for its 2006 or 2007 taxable year, nor does it anticipate being classified as a PFIC in its current or future taxable years. Given that the determination of PFIC status involves the application of complex tax rules, and that its is based on the nature of the Company s income and assets from time to time, no assurances can be provided that the Company will not be considered a PFIC for the current (or any past or future) taxable year.

The U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those procedures have not yet been issued, it is not clear whether the Company will be able to comply with them. Special limitations on foreign tax credits apply to dividends subject to the reduced rate of tax. U.S. holders of Preferred ADRs are urged to consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder s U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately for specific categories of income, a dividend generally will constitute foreign source passive category income or, in the case of certain holders, general category income . A U.S. holder will be denied a foreign tax credit with respect to Brazilian income tax withheld from dividends received with respect to the underlying Preferred Shares represented by the Preferred ADRs to the extent the U.S. holder has not held the Preferred ADRs for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent the U.S. holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the Preferred ADRs are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers to determine whether and to what extent they will be entitled to foreign tax credits as well as with respect to the determination of the foreign tax credit limitation. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax. U.S. holders should be aware that the IRS has expressed concern that parties to whom ADRs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADRs. Accordingly, the discussion above regarding the credibility of Brazilian withholding taxes could be affected by future actions that may be taken by the IRS.

<u>Non-U.S. holders:</u> A dividend paid to a non-U.S. holder on a Preferred ADR will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the Preferred ADR). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax, the rate of which may be reduced pursuant to an applicable income tax treaty.

Taxation of Capital Gains

U.S. holders. Subject to the PFIC rules discussed below, on a sale or other taxable disposition of a Preferred ADR, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder s adjusted basis in the Preferred ADR and the amount realized on the sale or other disposition, each determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition the Preferred ADR has been held for more than one year. In general, any adjusted net capital gain of an individual in a taxable year beginning before January 1, 2011 is subject to a maximum tax rate of 15%. In subsequent years, the maximum tax rate on the net capital gain of an individual may be higher. The deductibility of capital losses is subject to limitations.

Any gain a U.S. holder recognizes generally will be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Brazilian tax is withheld on a sale or other disposition of a Preferred Share, the amount realized will include the gross amount of the proceeds of that sale or disposition before deduction of the Brazilian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes may preclude a U.S. holder from obtaining a foreign tax credit for any Brazilian income tax withheld on a sale of a Preferred Share. The rules relating to the determination of the foreign tax credit are complex income, and U.S. holders are urged to consult with or Preferred ADR unless the U.S. holder has other income from foreign sources their own tax advisers regarding the application of such rules. Alternatively, any Brazilian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year.

Non-U.S. holders. A non-U.S. holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposition of a Preferred ADR unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base that the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the Preferred ADR), or (ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions apply. Any effectively connected gain of a corporate non-U.S. holder may also be subject under certain circumstances to an additional branch profits tax , the rate of which may be reduced pursuant to an applicable income tax treaty.

PFIC Rules

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. As noted above, based on the Company s audited financial statements and relevant market and shareholder data, as well as the Company s current and projected income, assets and activities, the Company believes it was not a PFIC for U.S. federal income tax purposes for its 2006 or 2007 taxable year, nor does it anticipate being classified as a PFIC in its current or future taxable years. However, because the determination of whether the Company is a PFIC is based upon the composition of its income and assets from time to time, and because there are uncertainties in the application of the relevant rules, it is possible that the Company will become a PFIC in a future taxable year (and no assurance can be provided that the Company will not be considered a PFIC for its current (or any past) taxable year). If the Preferred ADRs were shares of a PFIC for any taxable year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of ordinary income treatment for gains or excess distributions (generally a distribution in excess of 125% of the average distributions received during the past three years or, if shorter, the U.S. holders holding period) that would otherwise be taxed as capital gains, along with an interest charge on gains or excess distributions allocable to prior years in the U.S. holder s holding period during which the Company was determined to be a PFIC. If the Company is deemed to be a PFIC for a taxable year, dividends on a Preferred ADR would not constitute qualified dividends subject to preferential rates of U.S. federal income taxation. U.S. holders are urged to consult their own tax advisers regarding the application of the PFIC rules.

Information Reporting and Backup Withholding

Dividends paid on, and proceeds from the sale or other disposition of, a Preferred ADR to a U.S. holder, generally may be subject to information reporting requirements and may be subject to backup withholding (currently at the rate of 28%) unless the U.S. holder provides an accurate taxpayer identification number or otherwise demonstrates that they are exempt. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder s U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is timely submitted to the IRS. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at www.sec.gov. The Company s filings are also available to the public through the Internet at Gerdau s website at www.gerdau.com.br. Such filings and other information on its website are not incorporated by reference in this Annual Report. Interested parties may request a copy of this filing, and any other report, at no cost, by writing to the Company at the following address: Av. Farrapos, 1811 Porto Alegre-RS 90.220-005 Brazil or calling 55-51-3323 2703 or by e-mail at inform@gerdau.com.br. In compliance with New York Stock Exchange Corporate Governance Rule 303A.11, the Company provides on its website a summary of the differences between its corporate governance practices and those of U.S. domestic companies under the New York Stock Exchange listing standards.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

Gerdau is exposed to various market risks, mainly variations in exchange rates and interest rate volatility. Market risk is the potential loss arising from adverse changes in market rate and prices. Gerdau enters into derivatives and other financial instruments to manage and reduce the impact of fluctuations of interest rates. Gerdau has established policies and procedures for risk assessment and the approval, reporting and monitoring of its derivative financial activities.

Foreign Exchange Risk

Gerdau is exposed to fluctuations in exchange rate movements since substantially all of its revenues generated outside its subsidiaries in the United States are in the local currency of the respective subsidiaries, mainly the reais, while a significant portion of its debt is denominated in or indexed to U.S. dollars. The table below provides information about Gerdau s significant exchange rate risk sensitive instruments on December 31, 2007.

The Company s estimate of the fair value of its financial instruments, including long-term debt, approximates to their recognized book value except to the expert disclosed in note 20 to the financial statements.

Financial instruments indexed to the U.S. dollar excluding North American subsidiaries and foreign subsidiaries with dollar as the functional currency

$ thousand	**2008**	**2009**	**2010**	**2011**	**2012**	**Maturity After 2012**	**TOTAL**
Financing for machinery and others							
Outstanding amount	165,697	219,068	129,112	102,859	52,490	223,040	**892,266**
Weighted average interest rate	FX+7.48%	FX+7.48%	FX+7.48%	FX+7.48%	FX+7.48%	FX+7.48%	
Fair value (total)							892,266
Pre-export advances							
Outstanding amount	112,029	63,388	22,190	22,190	22,190	17,905	**259,892**
Weighted average interest rate	FX+6.6%	FX+6.6%	FX+6.6%	FX+6.6%	FX+6.6%	FX+6.6%	
Fair value (total)							259,892
Guaranteed Senior Perpetual Bonds							
Outstanding amount						600,000	**600,000**
Average interest rate	FX+ 9.75%	FX+ 9.75%	FX+ 9.75%	FX+ 9.75%	FX+ 9.75%	FX+ 9.75%	
Fair value (total)							625,266
Financing for investments							
Outstanding amount	20,212					110,138	**130,350**
Weighted average interest rate	FX+6.8%	FX+6.8%	FX+6.8%	FX+6.8%	FX+6.8%	FX+6.8%	
Fair value (total)							130,350
Working capital							
Outstanding amount	1,183						**1,183**
Weighted average interest rate	FX+7.77%	FX+7.77%	FX+7.77%	FX+7.77%	FX+7.77%	FX+7.77%	
Fair value (total)							1,183
Total debt of subsidiaries outside North American indexed to U.S. dollars	299,121	282,456	151,302	125,049	74,680	951,083	**1,883,691**

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FX: Indicates that since the debt is denominated in a currency different to the functional currency of the subsidiary a foreign exchange gain or loss will be recognized in income resulting from the fluctuation of the exchange rate between the U.S. dollar (the currency on which the debt is denominated) and the respective local currency.

Interest rate risk

Part of Gerdau Ameristeel s borrowings, primarily those associated with its Senior Secured Credit Facility, was negotiated at variable interest rates and expose the Company to interest rate risk. If interest rates increase, debt service obligations on its floating rate debt would increase, leading to a decrease in net income.

From time to time, the Company has entered into interest rate swaps in order to reduce interest rate risk and interest expense. The Company makes only limited use of derivative instruments for non-speculative purposes, in order to manage well-defined interest rate risks arising during the normal course of its business.

In order to reduce its exposure to changes in the fair value of its Senior Notes (See Item 10C. Material Contracts), Gerdau Ameristeel entered into interest rate swaps subsequent to the June 2003 refinancing program (See Item 5B. Liquidity and Capital Resources). These agreements have a notional value of $200 million, expiring on July 15, 2011. The Company 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 have to be paid if the agreements were terminated at December 31 2007, was approximately $4,844 million.

Gerdau s brazilian operations have also entered into some interest rate swaps, in order to manage each entity exposure to fixed or floating interest rates. Gerdau Açominas has a interest swap in which it receives a fixed rate in U.S. dollars and pays a variable interest rate based on Libor. These contracts have a notional amount of $275.1 million, and its fair value, which represents the amount that would be received if the agreement were terminated as of December 31, 2007, is a loss of approximately $3.3 million. Gerdau Açominas has also a cross-currency swap in which it receives a variable amount of interest based on Japanese Libor in Japanese yens, and pays a fixed interest in US dollars, with a notional amount of $267 million; at the same time, Gerdau Açominas has a reverse swap in which it receives a fixed interest rate in US dollars, and pays a variable interest rate based on in Japanese Libor. Such contracts have a fair value, which represents the amount to be paid or received as of December 31, 2007, is a gain of $0.9 million and a loss of $0.5 million, respectively.

The Company has $8,240 million of long-term debt (including portion due within one year) and debentures outstanding as of December 31, 2007. Of this total, $5,971 million is floating-rate debt in US currency. Assuming a hypothetical 1% increase or decrease in interest rates, interest expense would be expected to increase or decrease by approximately $59.7 million.

The remaining $2,269 million of long-term debt and debentures is fixed-rate debt. Assuming a hypothetical 1% decrease in interest rates at December 31, 2007, the fair value of this fixed-rate debt would be expected to increase to $2,292 million. Fair market values are based upon market prices of current borrowings rates with similar rates and maturities.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure control and procedures

The Company has carried out an evaluation under the supervision of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance that they will achieve their control objectives. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files and submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as of the end of the Company s most recent fiscal year.

Gerdau S.A. has created a Disclosure Committee composed of the Chief Financial Officer and Investor Relations Executive Officer, Osvaldo Schirmer, the Legal Vice President of the Company, Expedito Luz, the Accounting Director, Geraldo Toffanello and the Financial Director, Harley Scardoelli. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

No changes in the Company s internal controls over financial reporting occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

In addition, there have been no significant changes in the Company s internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Please see Exhibit 12.01 and 12.02 for the certifications required by this Item.

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.

Attestation report of the registered public accounting firm on effectiveness of internal control as of December 31, 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Please see item 17. Financial Statements

ITEM 16. [RESERVED]

A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Egon Handel, a member of its Board of Auditors, is a financial expert and independent within the meaning of the SEC rules applicable to disclosure of such expertise.

B. CODE OF ETHICS

Gerdau S.A. has adopted a Code of Ethics, termed Gerdau Ethical Guidelines , which consolidates the ethical principles and values underlying the Company s activities. Gerdau Ethical Guidelines is a document applicable to all Group employees in Latin America and Europe, independent of their position (except to Venezuela and Mexico operations, where the Guidelines have not been implemented yet). The provisions of the document are thus binding on Gerdau s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and other persons performing similar functions.

The Company s (66,5% owned) subsidiary, Gerdau Ameristeel Corporation has its own Code of Ethics and Business Conduct, which is compatible with Gerdau s guidelines. Both documents meet the definition of code of ethics contemplated by applicable SEC and New York Stock Exchange rules, covering wrongdoing related to business conduct, conflicts of interest, disclosure in reports and other documents, as well as compliance with legislation. Each document establishes a manner of reporting violations, as well as accountability for adherence.

Gerdau Ethical Guidelines states and defines the values that have formed the foundation of the Gerdau Group for more than 100 years, which are: Integrity, Correctness and Consistency; Satisfied Customers; Accomplished People; Safe Work Environment; Quality in Everything We Do; Solidity and Security; Commitment to All Stakeholders and Profit as a Measure of Performance. The document also covers the Company s and employees commitments regarding relationships between Company and employees, customers, shareholders, suppliers, competitors, community and environment.

Gerdau Ameristeel s Code of Ethics and Business Conduct covers the following issues: Business Conduct and Compliance with Laws (Safety and Health; Equal Employment; Discriminatory Harassment; Sexual Harassment; Environmental; Antitrust; Campaign and Election Law Matters; Improper Payments and Foreign Governmental Contracts; Delegation of Authorities and Insider Trading; Conflicts of Interest; Corporate Opportunities; Accuracy of Records and Information Reporting; Confidentiality; Fair Dealing; Protection and Proper Use of Company Assets; Guidance Available; Compliance, Administration and Reporting and Disclosures.

Gerdau Ameristeel has also adopted a Code of Ethics applicable to its Senior Executives, which is a supplement to the Code of Ethics and Business Conduct. This document binds all of Gerdau Ameristeel s employees who have significant responsibility for preparing or overseeing the preparation of the Company s financial statements and other financial data included in the Company s periodic reports to the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission and in other public communications made by the Company.

Gerdau Ethical Guidelines and Gerdau Ameristeel s Code of Ethics and Business Conduct were not amended in the last fiscal year, and the Companies did not grant any waiver from the documents provisions.

The Gerdau Ethical Guidelines document may be accessed through its Internet website (www.gerdau.com.br). Gerdau Ameristeel s Code of Ethics and Business Conduct as well as the Code of Ethics Applicable to Senior Executives can be found on its web site at www.gerdauameristeel.com.

The Company has also adhered to the BOVESPA Level 1 Corporate Governance Guidelines and has agreed to comply with all corresponding practices. These include improving quarterly disclosures, promoting compliance with disclosure rules, disclosing the existence and contents of shareholders agreements and stock options plans as well as an annual agenda for corporate events.

C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table provides information on fees billed to Gerdau for professional services rendered by the external auditors responsible for auditing the financial statements included in this Annual Report (in thousands of U.S. dollars) which were PricewaterhouseCoopers Auditores Independentes for the year ended December 31, 2006 and Deloitte Touche Tohmatsu Auditores Independentes for the year ended December 31,2007:

	2007	**2006**
Audit fees	4,265	4,551
Audit-related fees	2,310	799
Tax fees		396
All other fees	338	192
Total	**6,913**	**5,938**

Audit fees are related to professional services rendered in the auditing of Gerdau s consolidated financial statements, quarterly reviews of Gerdau s consolidated financial statements and statutory audits and interim reviews of certain of the Company s subsidiaries and affiliates as required by the appropriate legislation. Those amounts also include fee related to the audit of internal controls over financial reporting of Gerdau and of Gerdau Ameristeel.

Audit-related fees are for assurance and related services, such as due diligence services traditionally performed by an external auditor related to acquisitions, as well as consulting on accounting standards and transactions.

Tax fees are related to services provided to subsidiaries in Europe (relating to tax compliance) and to subsidiaries in North America (tax services).

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

On April 28, 2005, the Company elected its Board of Auditors duly adapted to ensure compliance with the Sarbanes-Oxley Act requirements and exemptions from the listing standards. The Board of Auditors (Conselho Fiscal) has been operating in accordance with Brazilian Corporate Law 6,404/76, since April 2000. The customary role of this board is to monitor and verify the actions of company directors and executive officers and the compliance with their legal duties, providing opinions and official statements on the annual management report and the proposals of members of the Board of Directors, denouncing errors or fraud, calling meetings whenever necessary and analyzing financial statements. In establishing a permanent Board of Auditors, the Company has availed itself of paragraph (c)(3) of Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements for a foreign private issuer (such as the Company) with a board of auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee s required purpose and detailing its required responsibilities. However, as a foreign private issuer, the Company needs only to comply with the requirement that the audit committee, or Board of Auditors in its case, meet the SEC rules regarding audit committees for listed companies. The Brazilian Corporate Law requires companies to have a non-permanent Board of Auditors composed of three to five members who are elected by the shareholders at the Ordinary General Meeting of Shareholders. The Board of Auditors operates independently from management and from a company s external auditors. Its main function is to monitor the activities of the management of the company, examine the financial statements of each fiscal year and provide a formal report to its shareholders.

The Company has a permanent Conselho Fiscal that consists of three members (up to five) and three alternates (up to five) and which has ordinary meetings every two months. The members of the Company s Conselho Fiscal are all financially literate and one member has accounting expertise that qualifies him as an audit committee financial expert. The Company believes that its Board of Auditors, as modified, meets the requirements for the exemption available to foreign private issuers under the SEC rules regarding audit committees of listed companies. In addition, the Board of Auditors operates under a written charter that is in the process of being amended and which the Company believes meets the NYSE s requirements for audit committee charters. The Board of Auditors is not the equivalent of, or wholly comparable to, a U.S. audit committee. Among other differences, it is not required to meet the standards of independence established in Rule 10A-3 and is not fully empowered to act on matters that are required by Rule 10A-3 to be within the scope of an audit committee s authority. Nonetheless, with the duties that have been provided to the Board of Auditors to the extent permitted by Brazilian law, the Company believes that its current corporate governance system, taken as a whole, including the ability of the Board of Auditors to consult internal and external experts, is fully equivalent to a system having an audit committee functioning as a committee of its Board of Directors. For a further discussion of its Board of Auditors, see Item 6C. Board Practices Board of Auditors .

The Board of Auditors members are elected at the Ordinary Shareholders Meeting for one-year terms. They are eligible for reelection. Additionally, minority-preferred shareholders elected one of the current members. As required by Brazilian law, members of the Board of Auditors must have held office for at least three years as business administrators or as members of boards of auditors. The Board of Auditors, at the request of any of its members, may ask the external auditors to provide explanations or information and to investigate specific facts.

E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On May 30, 2005, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and resolved to authorize the acquisition of shares issued by Gerdau S.A. to remain in treasury and for the Company s Long Term Incentive Program or for later cancellation.

Such acquisitions were carried out using cash funds of existing profit reserves up to the adjusted limit of 9,750,000 preferred shares, representing approximately 3.16% of free-float, which totaled 308,090,904 adjusted preferred shares on April 30, 2005.

The Board of Director s authorization remained in force for 60 days from the above date of its approval. The transaction was concluded through stock exchanges, at market prices, with the intermediation of the following brokers:

Bradesco S.A. Corretora de Títulos e Valores Mobiliários

Itaú Corretora de Valores S.A.

Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários

Unibanco Investshop Corretora de Valores Mobiliários S.A

UBS Corretora de Câmbio e Valores Mobiliários S.A.

Purchases by the Issuer of Equity Securities

(Shares and prices have been retroactively adjusted for all periods below to reflect a one bonus share for each two preferred shares held, approved in March 2006.)

	Total Number of Shares Purchased	Average Price Paid per Share(1) (In R$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
May (05/31/2005)	72,000	16.44	0.7%	9,678,000
June (06/02/2005 06/30/2005)	739,200	15.50	8.3%	8,938,800
July (07/01/2005 07/25/2005)	299,100	15.02	11.4%	8,639,700
TOTAL	**1,110,300**	**15.43**	**11.4%**	**8,639,700**

(1) Price paid divided by number of shares excluding brokers fees.

On May 25, 2006, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and resolved to authorize the acquisition of preferred shares issued by Gerdau S.A. to remain in treasury and for the Company s Long Term Incentive Program or for later cancellation.

These shares were acquired using cash funds backed by existing profit reserves up to the limit of 3,000,000 preferred shares, representing approximately 1.02% of free-float, which amounted to 294,023,554 preferred shares on April 30, 2006.

The Board of Director s authorization remained in force for 60 days from the above date of its approval. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following brokers:

Bradesco S.A. Corretora de Títulos e Valores Mobiliários

Itaú Corretora de Valores S.A.

Merrill Lynch S.A. Corretora de Títulos Valores Mobiliários

Unibanco Investshop Corretora de Valores Mobiliários S.A.

UBS Corretora de Câmbio e Valores Mobiliários S.A.

Purchases by the Issuer of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share(1) (In R$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs
May (05/26/2006 05/31/2006)	280,700	33.12	9.4%	2,719,300
June (06/01/2006 06/30/2006)	1,154,600	30.17	47.8%	1,564,700
July (07/03/2006 07/17/2006)	923,400	31.89	78.6%	641,300
TOTAL	**2,358,700**	**31.19**	**78.6%**	**641,300**

(1) Price paid divided by number of shares excluding brokers fees.

On January 08, 2008, the Board of Directors of Gerdau S.A. met in accordance with statutory requirements and the terms of CVM Instruction 10/80 and 268/97 of the Brazilian Securities Commission (CVM), deliberated to authorize the acquisition by said Company of preferred shares issued by it to remain in treasury for the Company s Long Term Incentive Program.

Such acquisitions were carried out using cash funds of existing profit reserves up to the limit of 1,000,000 preferred shares, representing approximately 0.34% of outstanding preferred stock, which totaled 291,926,849 preferred shares on November 30th, 2007.

The Board of Director s authorization remained in force for 30 days from the above date of its approval ending on February 06th, 2008. The transaction was concluded through the stock exchanges, at market prices, with the intermediation of the following brokers:

Bradesco S.A. Corretora de Títulos e Valores Mobiliários

Itaú Corretora de Valores S.A.

Unibanco Investshop Corretora de Valores Mobiliários S.A.

Purchases by the Issuer of Equity Securities

	Total Number of Shares Purchased	**Average Price Paid per Share(1) (In R$)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Still Be Purchased Under the Plans or Programs**
January (01/08/2008 01/17/2008)	1,000,000	49.66	100%	
TOTAL	**1,000,000**	**49.66**	**100%**	

(1) Price paid divided by number of shares excluding brokers fees.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has responded to Item 18 in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

(b) List of Exhibits

1.01	Bylaws of Gerdau S.A.
2.02	Corporate Governance Level 1 BOVESPA *

2.03(a) Deposit Agreement dated September 18, 1997, as amended and restated on March 8, 1999, and as further amended and restated on May 7, 2003, among the Company, The Bank of New York as Depositary and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued thereunder. **

2.04(b) Senior Expert and Working Capital Facility Agreement, dated as of September 10, 2007, among Gerdau Ameristeel US Inc. and GNA Partners, GP, as borrowers, the Company, Gerdau Ameristeel Corporation, Gerdau Acominas S.A., Gerdau Acominas Overseas Limited, Gerdau Acos Longos S.A., Gerdau Acos Especias S.A. and Gerdau Comercial de Acos S.A., as guarantors, the Bank as defined therein and JPMorgan Chase Bank, N.A., as administrative Agent and Collateral Agent. ***

4.02 Policies of the Stock Option Plan

12.01 Certification of the Chief Executive Officer under Item 15

12.02 Certification of the Chief Financial Officer under Item 15

13.01 Certification pursuant to 18 U.S.C. Section 1350

13.02 Certification pursuant to 18 U.S.C. Section 1350

15.01 Report of independent registered public accounting firm regarding Gallatin Steel Company

15.02 Report of independent registered public accounting firm regarding Aços Villares S.A.

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* Incorporated by reference to the Company s Annual Report on Form 20-F for the year ended December 31, 2003 (File Nº 001-14878), filed with the Securities and Exchange Commission on June 30, 2004.

** Incorporated by reference to the Company s Registration Statement on Form F-6 (File No. 333-9896), filed with the Securities and Exchange Commission on May 6, 2003.

*** Incorporated by reference to Exhibit 99.3 of Gerdau Ameristeel Corporation s Form 6-K filed with the Securities and Exchange Commission on September 24, 2007.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GERDAU S.A.

By:	/s/ André Bier Johannpeter	
Name:		André Bier Johannpeter
Title:		Chief Executive Officer
By:	/s/ Osvaldo Burgos Schirmer	
Name:		Osvaldo Burgos Schirmer
Title:		Chief Financial Officer

Dated: April 11, 2008

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). Tho