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 CurrenPortion 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		