

GERDAU S.A.

Condensed consolidated
interim financial information
at June 30, 2007 and 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Gerdau S.A.
Porto Alegre - Brazil

We have reviewed the accompanying condensed consolidated balance sheet of Gerdau S.A. and subsidiaries as of June 30, 2007, and the related condensed consolidated statements of income, of comprehensive income and of cash flows for the three-month and six-month periods then ended, and of changes in shareholder's equity for the six-month period then ended. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu
Auditores Independentes
Porto Alegre, Brazil
August 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Gerdau S.A.
Porto Alegre, Brazil

We have reviewed the accompanying condensed consolidated balance sheet as of June 30, 2006, and the related condensed consolidated statements of income, of comprehensive income, and of cash flows for each of the three-month and six-month periods ended June 30, 2006 and of changes in shareholders' equity for the six-month period ended June 30, 2006 of Gerdau S.A. and its subsidiaries (the "Company"). This interim financial information is the responsibility of the Company's management.

The review of the interim financial information of: (a) Gallatin Steel Company, a 50% owned joint venture, which represented an equity investment of 1.1% of total consolidated assets as of June 30, 2006 and equity in income of 4.9% and 4.4% of income before taxes on income and minority interests for the three-month and six-month periods ended June 30, 2006, respectively, and (b) Aços Villares S.A. a subsidiary, which statements reflect total assets of 5.9% of the related consolidated total as of June 30, 2006, and total net sales of 6.7% and 6.4% of the related consolidated total for the three-month and six-month periods ended June 30, 2006, respectively; have been carried out by other accountants.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the review performed by the other accountants, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in shareholders' equity for the year then ended (not presented herein), and in our report dated April 20, 2007 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers
Auditores Independentes
Porto Alegre, Brazil

August 8, 2006, except for the 5th
paragraph of this review report
as to which the date is April 20, 2007

GERDAU S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. Dollars, except number of shares)

ASSETS

	Note	June 30, (Unaudited)		December
		2007	2006	31, 2006
Current				
Cash and cash equivalents		492,764	732,316	485,498
Restricted cash		13,466	9,154	13,512
Short-term investments				
Trading		1,888,538	1,673,147	2,221,422
Available for sale		197,457	299,458	123,430
Held to maturity		81,124	76,201	138,200
Trade accounts receivable, net		1,702,114	1,289,931	1,283,420
Inventories	3	2,679,823	2,028,129	2,380,878
Unrealized gains on derivatives	9	941	395	2,660
Deferred income taxes		39,550	55,701	51,730
Tax credits		248,395	159,738	253,519
Prepaid expenses		50,607	39,592	39,301
Other current assets		103,602	79,608	90,860
Total current assets		7,498,381	6,443,370	7,084,430
Non-current assets				
Property, plant and equipment, net	4	7,048,946	5,018,572	5,990,629
Deferred income taxes		148,808	227,291	187,710
Judicial deposits	6	91,974	70,320	80,103
Unrealized gains on derivatives	9	7,569	12,627	6,623
Tax credits		243,330	129,553	192,967
Equity investments		225,590	185,938	197,511
Investments at cost		18,501	11,750	11,377
Goodwill		548,443	389,274	336,768
Prepaid pension cost		272,754	90,153	243,558
Advance payment for acquisition of investment		14,895	75,593	14,895
Other non-current assets		250,421	171,371	142,294
Total assets		16,369,612	12,825,812	14,488,865

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. Dollars, except number of shares)

LIABILITIES AND SHAREHOLDER'S EQUITY

	Note	June 30, (Unaudited)		December
		2007	2006	31, 2006
Current liabilities				
Short-term debt	5	588,432	640,234	503,299
Current portion of long-term debt	5	459,507	410,333	561,821
Trade accounts payable		1,269,231	1,007,357	1,113,338
Income taxes payable		38,387	54,887	41,810
Unrealized losses on derivatives	9	1,216	-	1,258
Deferred income taxes		45,294	100,960	25,230
Payroll and related liabilities		227,827	143,370	177,421
Dividends and interest on equity payable		1,217	1,504	99,003
Taxes payable, other than income taxes		241,026	118,563	182,136
Other current liabilities		305,141	299,899	218,987
Total current liabilities		<u>3,177,278</u>	<u>2,777,107</u>	<u>2,924,303</u>
Non-current liabilities				
Long-term debt, less current portion	5	3,224,431	2,608,840	3,128,868
Debentures	5	521,168	444,453	443,280
Deferred income taxes		406,582	270,642	416,046
Accrued pension and other post-retirement benefits obligation		260,405	217,347	251,415
Provision for contingencies	6	207,760	205,446	189,725
Unrealized losses on derivatives	9	14,329	6,658	10,489
Deferred credit related to acquisition of Corporación Sidenor		109,696	-	106,899
Other non-current liabilities		255,654	174,096	204,710
Total non-current liabilities		<u>5,000,025</u>	<u>3,927,482</u>	<u>4,751,432</u>
Total liabilities		<u>8,177,303</u>	<u>6,704,589</u>	<u>7,675,735</u>
Commitments and contingencies	6			
Minority interest		2,161,194	1,629,450	1,882,489
SHAREHOLDERS' EQUITY				
Preferred shares - no par value - 800,000,000 authorized shares and 435,986,041 shares issued at June 30, 2007 and 2006 and at December 31, 2006.		2,253,377	2,253,377	2,253,377
Common shares - no par value - 400,000,000 authorized shares and 231,607,008 shares issued at June 30, 2007 and 2006 and at December 31, 2006.		1,179,236	1,179,236	1,179,236
Additional paid-in capital		132,786	129,949	131,546
Treasury stock - 5,030,532 and 4,200,596 preferred shares at June 30, 2007 and 2006, respectively, and 5,103,345 at December 31, 2006.		(45,354)	(28,409)	(46,010)
Legal reserve		82,603	6,960	74,420
Retained earnings		2,108,071	1,143,710	1,459,818
Accumulated other comprehensive income (loss)				
- Foreign currency translation adjustment		285,912	(157,946)	(151,798)
- Unrealized net gains and losses on pension and postretirement benefits, net of tax		20,478	-	30,052
- Unrealized gain on available for sale securities, net of tax		14,006	-	-
- Additional minimum pension liability		-	(35,104)	-
Total shareholders' equity		<u>6,031,115</u>	<u>4,491,773</u>	<u>4,930,641</u>
Total liabilities and shareholders' equity		<u><u>16,369,612</u></u>	<u><u>12,825,812</u></u>	<u><u>14,488,865</u></u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (Unaudited)
(in thousands of U.S. Dollars, except number of shares and per share amounts)

	Note	Three-month period ended		Six-month period ended	
		June 30,		June 30,	
		2007	2006	2007	2006
Sales		4,240,712	3,306,257	8,102,669	6,451,293
Less: Federal and state taxes on sales		(379,624)	(289,129)	(693,169)	(586,258)
Less: Discounts		(69,634)	(30,503)	(128,641)	(71,848)
Net sales		3,791,454	2,986,625	7,280,859	5,793,187
Cost of sales		(2,809,637)	(2,142,220)	(5,450,693)	(4,228,062)
Gross profit		981,817	844,405	1,830,166	1,565,125
Sales and marketing expenses		(84,736)	(68,054)	(156,968)	(127,557)
General and administrative expenses		(250,125)	(202,765)	(455,298)	(414,481)
Other operating income (expenses), net		12,941	(11,221)	39,616	62,757
Operating income		659,897	562,365	1,257,516	1,085,844
Financial expenses		(104,867)	(72,858)	(226,459)	(185,532)
Financial income		85,325	91,864	209,924	224,953
Foreign exchange gains and losses, net		124,994	21,549	212,255	115,750
(Losses) gains on derivatives, net		(34,731)	9,898	(30,672)	10,571
Equity in earnings of unconsolidated companies, net		20,230	37,180	38,826	66,476
Income before taxes on income and minority interest		750,848	649,998	1,461,390	1,318,062
Provision for taxes on income	11				
Current		(137,027)	(121,282)	(274,678)	(247,445)
Deferred		(17,553)	(7,691)	(46,556)	(43,431)
		(154,580)	(128,973)	(321,234)	(290,876)
Income before minority interest		596,268	521,025	1,140,156	1,027,186
Minority interest		(179,722)	(107,967)	(298,890)	(179,547)
Net income		416,546	413,058	841,266	847,639
Per share data (in US\$)	8				
Basic earnings per share					
Preferred		0.63	0.62	1.27	1.28
Common		0.63	0.62	1.27	1.28
Diluted earnings per share					
Preferred		0.62	0.62	1.26	1.26
Common		0.62	0.62	1.26	1.26
Number of weighted-average common shares outstanding – Basic and diluted		231,607,008	231,607,008	231,607,008	231,607,008
Number of weighted-average preferred shares outstanding – Basic		430,945,539	432,990,363	430,926,433	432,620,192
Number of weighted-average preferred shares outstanding – Diluted		437,653,264	438,699,588	437,727,307	438,926,281

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
(in thousands of U.S. Dollars)

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net income as reported in the consolidated statement of income	416,546	413,058	841,266	847,639
Amortization of unrealized losses on pension and postretirement obligation, net of tax	(4,935)	-	(9,574)	-
Unrealized gain on available for sale securities, net of tax	14,006	-	14,006	-
Foreign currency translation adjustments	<u>248,803</u>	<u>(17,322)</u>	<u>437,710</u>	<u>217,677</u>
Comprehensive income for the period	<u><u>674,420</u></u>	<u><u>395,736</u></u>	<u><u>1,283,408</u></u>	<u><u>1,065,316</u></u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(in thousands of U.S. Dollars, except per share data)

	Note	Preferred shares	Common shares	Additional paid-in capital	Treasury stock	Legal reserve	Retained earnings	Cumulative other comprehensive loss	Total
Balances as of January 1, 2006		1,456,479	755,903	134,147	(21,951)	198,685	1,431,062	(410,727)	3,543,598
Net income		-	-	-	-	-	847,639	-	847,639
Capitalization of reserves		796,898	423,333	-	-	(210,912)	(1,009,319)	-	-
Appropriation of reserves		-	-	-	-	19,187	(19,187)	-	-
Purchase of treasury preferred shares	7	-	-	-	(19,454)	-	-	-	(19,454)
Foreign currency translation adjustment		-	-	-	-	-	-	217,677	217,677
Dividends - \$0.16 per Common share and per Preferred share	7	-	-	-	-	-	(103,154)	-	(103,154)
Stock option exercised during the period		-	-	(5,281)	12,996	-	(3,331)	-	4,384
Stock option plan expense recognized during the period		-	-	1,083	-	-	-	-	1,083
Balances as of June 30, 2006		<u>2,253,377</u>	<u>1,179,236</u>	<u>129,949</u>	<u>(28,409)</u>	<u>6,960</u>	<u>1,143,710</u>	<u>(193,050)</u>	<u>4,491,773</u>
Balances as of January 1, 2007		2,253,377	1,179,236	131,546	(46,010)	74,420	1,459,818	(121,746)	4,930,641
Net income		-	-	-	-	-	841,266	-	841,266
Appropriation of reserves		-	-	-	-	8,183	(8,183)	-	-
Foreign currency translation adjustment		-	-	-	-	-	-	437,710	437,710
Dividends - \$0.28 per Common share and per Preferred share	7	-	-	-	-	-	(185,166)	-	(185,166)
Amortization of SFAS 158 transition amount, net of tax		-	-	-	-	-	-	(9,574)	(9,574)
Unrealized gains on securities available for sale, net of tax		-	-	-	-	-	-	14,006	14,006
Stock option exercised during the period		-	-	-	656	-	336	-	992
Stock option plan expense recognized during the period		-	-	1,240	-	-	-	-	1,240
Balances as of June 30, 2007		<u>2,253,377</u>	<u>1,179,236</u>	<u>132,786</u>	<u>(45,354)</u>	<u>82,603</u>	<u>2,108,071</u>	<u>320,396</u>	<u>6,031,115</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Unaudited)
(in thousands of U.S. Dollars)

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Cash flows from operating activities				
Net income	416,546	413,058	841,266	847,639
Adjustments to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	135,770	118,738	287,178	242,916
Equity in earnings on unconsolidated companies, net	(20,230)	(37,180)	(38,826)	(66,476)
Foreign exchange loss	(124,994)	(118,143)	(212,255)	(115,750)
Losses (gains) on derivative instruments	34,731	(9,898)	30,672	(10,571)
Minority interest	179,722	107,967	298,890	179,547
Deferred income taxes	17,553	7,691	46,556	43,431
Loss (gain) on disposal of property, plant and equipment	8,046	(4,993)	9,380	(10,228)
Provision for doubtful accounts	1,343	2,378	3,482	5,830
Provision for contingencies	435	(12,870)	3,991	(4,633)
Distributions from joint ventures	11,257	30,750	31,661	61,153
Other	-	-	(35)	-
Changes in assets and liabilities:				
Increase in accounts receivable	(82,312)	(107,271)	(340,378)	(261,091)
(Increase) decrease in inventories	(170,101)	(100,334)	(135,082)	30,425
(Decrease) increase in accounts payable and accrued liabilities	(7,814)	267,660	92,324	214,629
Decrease (increase) in other assets	217,703	(36,529)	171,743	(129,876)
Increase in other liabilities	10,774	65,952	79,258	70,289
Purchases of trading securities	(335,303)	(216,667)	(414,128)	(394,177)
Proceeds from maturities and sales of trading securities	588,860	16,138	941,526	598,894
Net cash provided by operating activities	<u>881,986</u>	<u>386,447</u>	<u>1,697,223</u>	<u>1,301,951</u>
Cash flows from investing activities				
Additions to property, plant and equipment	(380,892)	(255,009)	(743,750)	(496,386)
Payment for acquisitions in North America	(4,988)	(107,145)	(4,988)	(114,837)
Payment for acquisition in Argentina	-	-	(3,916)	(3,916)
Payment for acquisition in Spain	-	-	-	(200,082)
Advance payment for acquisition in Peru	-	(60,698)	-	(60,698)
Payment for acquisition in Mexico	-	-	(258,840)	-
Payment for acquisition in Dominican Republic	(42,900)	-	(42,900)	-
Payment for acquisition in Venezuela	(4,593)	-	(4,593)	-
Cash balance of acquired companies	3,414	22,371	9,652	66,442
Purchases of available for sale securities	(243,969)	(40,949)	(461,658)	(240,515)
Proceeds from maturities and sales of available for sale securities	187,836	-	387,631	-
Net cash used in investing activities	<u>(486,092)</u>	<u>(441,430)</u>	<u>(1,123,362)</u>	<u>(1,049,992)</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Unaudited)
(in thousands of U.S. Dollars)

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Cash flows from financing activities				
Cash dividends and interest on equity paid	(126,612)	(181,347)	(306,898)	(312,250)
Proceeds from exercise of employee stock options	596	465	992	4,384
(Increase) decrease in restricted cash	-	(14)	(6)	463
Debt issuance	475,138	253,304	666,869	728,634
Repayment of debt	(588,275)	(67,309)	(877,830)	(461,131)
Net related party debt loans and repayments	<u>(78,438)</u>	<u>(24,526)</u>	<u>(75,959)</u>	<u>(16,515)</u>
Net cash provided by (used in) financing activities	<u>(317,591)</u>	<u>(19,427)</u>	<u>(592,832)</u>	<u>(56,415)</u>
Effect of exchange rate changes on cash	21,350	(100)	26,237	4,397
Increase (decrease) in cash and cash equivalents	99,653	(74,510)	7,266	199,941
Cash and cash equivalents at beginning of period	<u>393,111</u>	<u>806,826</u>	<u>485,498</u>	<u>532,375</u>
Cash and cash equivalents at end of period	<u>492,764</u>	<u>732,316</u>	<u>492,764</u>	<u>732,316</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

GERDAU S.A.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Unaudited)
(in thousands of U.S. Dollars, unless otherwise stated)

1 Operations

Gerdau S.A. is a *sociedade anônima* incorporated as a limited liability company under the laws of the Federative Republic of Brazil. The principal business of Gerdau S.A. (“Gerdau”) in Brazil and of its subsidiaries in Canada, Chile, the United States, Uruguay, Colombia, Argentina, Spain, Peru and as from this year also in Mexico and Venezuela (collectively the “Company”) comprise the production of crude steel and related long rolled products, drawn products and long specialty products. The Company produces steel based on the mini-mill concept, whereby steel is produced in electric arc furnaces from scrap and pig iron acquired mainly in the region where each mill operates. Gerdau also operates plants which produce steel from iron ore in blast furnaces and through the direct reduction process.

The Company manufactures steel products for use by civil construction, manufacturing, agribusiness as well as specialty steel products. The markets where the Company operates are located in Brazil, the United States, Canada, Chile, Colombia, Spain, Peru and, to a lesser extent, in Argentina, Mexico, Venezuela and Uruguay.

2 Basis of presentation

2.1 Accounting practices

The accompanying condensed consolidated financial information has been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”), which differ in certain aspects from the accounting practices adopted in Brazil (“Brazilian GAAP”) applied by the Company in the preparation of its statutory financial statements and for other legal and regulatory purposes. The consolidated financial statements for statutory purposes are prepared in Brazilian reais.

The condensed consolidated financial information as of and for the three-month and six-month periods ended June 30, 2007 and 2006 is unaudited. However, in the opinion of management, this financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods presented. The results for the three-month and six-month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the entire year.

This condensed financial information has been prepared on substantially the same basis as the consolidated financial statements as of and for the year ended December 31, 2006 and should be read in conjunction therewith.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America.

2.2 Recently issued accounting standards

In February, 2007, the FASB (Financial Accounting Standards Board) issued SFAS (Statements of Financial Accounting Standards) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115”. The SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company is in the process of evaluating the financial impact of adopting SFAS 159.

2.3 Adoption of new accounting standards

The Company adopted FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities", which amended the guidance on the accounting for planned major maintenance activities, and it specifically precludes the use of the previously acceptable "accrue in advance" method. The Company records expenses for planned major maintenance activities and the costs for plant shutdowns as operating expenses are incurred previously the issuance of this FSP; therefore, no impact for the adoption of this new standard was recorded.

The Company adopted the provisions of FIN (FASB Interpretation) No. 48, "Accounting for Uncertainty in Income Taxes" on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. As of January 1, 2007, the Company had \$22,778 of unrecognized tax benefits, of which \$19,778 would, if recognized, decrease the Company's effective tax rate. There have been no material changes to these amounts during the six months ended June 30, 2007. The Company does not expect any significant increases or decreases to the unrecognized tax benefits within the next 12 months. The Company has also reclassified an amount of \$8,878 related to tax contingencies from "Provision for contingencies" to "Other long term liabilities" as of June 30, 2007. Such amounts are related to income taxes benefits previously recorded on its tax books, but for which Company's legal advisors considered as a probable loss contingency. These same contingencies were not reclassified for the periods ended June 30, 2006 and December 31, 2006. Such contingencies amount to \$12,626 and 12,759, respectively.

The Company's continuing practice is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 the Company had approximately \$1,400 of accrued interest and penalties related to its uncertain tax positions.

The Company has several different tax years open to examinations, since each fiscal authority of each country in which the Company operates has different timing for tax examinations. In most cases, the years from 2002 to 2006 remains open for tax examinations; in Canada, tax years from 2000 to 2006 remains open for tax examination.

2.4 Currency translation

The Company has selected the United States dollar as its reporting currency. The U.S. dollar amounts have been translated following the criteria established in SFAS No. 52, "Foreign Currency Translation" from the financial statements expressed in the local currency of the countries where Gerdau and each subsidiary operates.

The Company's main operations are located in Brazil, the United States, Canada, Spain and Chile. The local currency is the functional currency for those operations. These financial statements, except for those of the subsidiaries located in the United States which already prepare their financial statements in U.S. dollars, are translated from the functional currency into the U.S. dollar. Assets and liabilities are translated at the exchange rate in effect at the end of each period. Average exchange rates are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in "Cumulative other comprehensive loss" within shareholders' equity. Gains and losses on foreign currency denominated transactions are included in the consolidated statement of income.

2.5 Controlling shareholder

As of June 30, 2007, the Company's parent, Metalúrgica Gerdau S.A. ("MG", collectively with its subsidiaries and affiliates, the "Conglomerate") owned 45.15% (December 31, 2006 and June 30, 2006 – 45.15% and 45.09% respectively) of the total capital of the Company. MG's share ownership consisted of 75.73% (in all periods presented) of the Company's voting common shares and 28.38% (in all periods presented) of its non-voting preferred shares.

2.6 Stock Based Compensation Plans

Gerdau Ameristeel Corp (“Gerdau Ameristeel”) and its subsidiaries and Gerdau S.A. maintain stock based compensation plans. The Company accounts for the stock-based compensation plans as from January 1, 2006 under SFAS 123 – R (“SFAS 123R”) “Shared-based payment”. SFAS 123R addresses the accounting for employee stock options and eliminates the alternative use of the intrinsic value method of accounting that was provided in Statement 123 as originally issued. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (vesting period). The grant-date fair value of employee share options and similar instruments is estimated using option-pricing models adjusted to the unique characteristics of those instruments.

The Company applied the modified prospective application method to account for the implementation of SFAS 123R, which consists recognizing costs of services rendered as from January 1, 2006 according to the grant-date fair value of stock options instruments, but does not require to restate previous year financial statements, and instead requires pro forma disclosures of net income and earnings per share for the effects on compensation had the grant-date fair value been adopted in prior periods. Under this transition method, compensation cost for stock options plans as from January 1, 2006, include the applicable amount of: (a) compensation cost for all share based instruments granted prior to, but not yet vested, as of January 1, 2006 (based on the grant-date fair value in accordance with the provisions of SFAS 123), and (b) compensation cost for all share based instruments granted after January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123R).

Through December 31, 2005, the Company applied the intrinsic value method established by Accounting Principles Board (“APB”) Opinion N° 25, “Accounting for Stock Issued to Employees” to account compensation for stock based compensation.

The Company and its subsidiary Gerdau Ameristeel have several stock based compensation plans. A brief summary of those plans is presented below:

Gerdau Plan

The Extraordinary Stockholders’ General Meeting of Gerdau held on April 30, 2003 decided, based on a plan approved by an Annual Stockholders’ meeting and up to the limit of authorized capital, to grant options to purchase shares to management, employees or individuals who render services to the Company or to entities under its control, and approved the creation of the “Long Term Incentive Program”. Under the plan, the Board of Directors may grant options to purchase shares at an exercise price established by the Board of Directors and that can be exercised after a vesting period and up to five years after vested.

During the three-month and six-month periods ended June 30, 2007, the Company recognized \$639 and \$1,240 of stock compensation costs related to the options issued during 2007. At June 30, 2007, the remaining unrecognized compensation cost related to these unvested options was approximately \$9,796 and the weighted-average period of time over which this cost will be recognized is 3.27 years.

Gerdau Ameristeel Plans

Gerdau Ameristeel has several stock based compensation plans, which are described below.

The long-term incentive plans are designed to reward Gerdau Ameristeel’s senior management with bonuses based on the achievement of return on capital invested targets. Bonuses which have been earned are awarded after the end of the year in the form of cash, stock appreciation rights (“SARs”), and/or options. The portion of any bonus which is payable in cash is to be paid in the form of phantom stock. The number of shares of

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phantom stock awarded to a participant is determined by dividing the cash bonus amount by the fair market value of a Common Share at the date the award of phantom stock is made. Phantom stock and SARs vest 25% on each of the first four anniversaries of the date of the award. Phantom stock will be paid out following vesting in the form of a cash payment. The number of options awarded to a participant is determined by dividing the non-cash amount of the bonus by the fair market value of the option at the date the award of the options is made. The value of the options is determined by the Human Resources Committee of the Gerdau Ameristeel's Board of Directors based on a Black Scholes or other method for determining option values. Options vest 25% on each of the first four anniversaries of the date of the award. Options may be exercised following vesting. Options have a maximum term of 10 years. The maximum number of options able to be granted under this plan is 6,000,000.

An award of approximately \$6,600 was earned by participants in 2006 and was paid 44% in SARs, 28% in options and 28% in phantom stock. On March 1, 2007, the Company issued 454,497 options under this plan. These awards are being accrued over the vesting period.

During the six months ended June 30, 2007, Gerdau Ameristeel recognized \$700 of stock compensation costs related to the options issued during 2007. At June 30, 2007, the remaining unrecognized compensation cost related to these unvested options was approximately \$1,500 and the weighted-average period of time over which this cost will be recognized is 3 years.

Methodology and assumptions used to estimate grant-date fair value

The Company has selected the Black-Scholes model to estimate the grant-date fair value of stock based compensation. Under SFAS 123R, the Company is required to estimate forfeitures when determining the stock based compensation expense as opposed to recognizing the forfeitures and the corresponding reduction in expense when they occur. The following weighted-average assumptions were used to estimate the compensation expense following the fair value method for compensation in stock of Gerdau S.A. and of Gerdau Ameristeel Corp., as appropriate.

Assumptions for options granted during the six-month ended June 30, 2007

	<u>Gerdau S.A.</u>	<u>Gerdau Ameristeel Corp</u>
Expected dividend yield:	4.32%	4.00%
Expected stock price volatility:	38.72%	50.50%
Risk-free rate of return:	12.40%	4.51%
Expected life:	4.9 years	6.25 years

Assumptions for options granted during the six-month ended June 30, 2006

	<u>Gerdau S.A.</u>	<u>Gerdau Ameristeel Corp</u>
Expected dividend yield:	9.9%	0.8%
Expected stock price volatility:	49%	47.39%
Risk-free rate of return:	6.75%	4.68%
Expected life:	4.9 years	6.25 years

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Summary of the Gerdau Plan and of the Gerdau Ameristeel plans

A summary of the Gerdau Plan is as follows:

Gerdau S.A.Plans	Six-month period ended June 30, 2007	
	Number of shares	Weighted-average exercise price US\$
Outstanding at December 31, 2006	3,963,033	16.05
Granted	778,239	35.00
Forfeited	(52,582)	23.83
Exercised	(72,811)	13.62
Outstanding at June 30, 2007	<u>4,615,879</u>	<u>19.20</u>
Options exercisable	<u>-</u>	
		US\$
Proceeds from stock options exercised		992
Intrinsic value of stock options exercised		477

A summary of the Gerdau Ameristeel plans is as follows:

Gerdau Ameristeel Plans	Six-month period ended June 30, 2007	
	Number of shares	Weighted-average exercise price US\$
Outstanding at December 31, 2006	1,418,511	5.37
Granted	454,497	10.90
Exercised	(258,597)	2.06
Forfeited	(3,483)	1.43
Expired	(66,000)	19.07
Outstanding at June 30, 2007 (a)	<u>1,544,928</u>	<u>7.17</u>
Options exercisable	<u>941,476</u>	

(a) At June 30, 2007, the weighted-average remaining contractual life of options outstanding was 6.2 years.

At June 30, 2007, the aggregate intrinsic value of options outstanding and options exercisable were both \$12,200 and \$9,700, respectively. (The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option).

The grant date fair value of stock options granted during the six months ended June 30, 2007 was \$4.08.

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised during the six months ended June 30, 2007 are provided in the following table:

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	US\$
Proceeds from stock options exercised	617
Tax benefit related to stock options exercised	989
Intrinsic value of stock options exercised	3,261

For the six months ended June 30, 2007 and 2006 Gerdau Ameristeel recorded \$18,000 and \$32,100, respectively, of expenses to mark to market outstanding stock appreciation rights and expenses associated with other executive compensation agreements.

2.7 Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest-entities on which the Company is considered to be the primary beneficiary (even when the Company may not have the majority voting interest). The following list presents the interests in the consolidated operational subsidiaries, as follows:

	Percentage interest (%)	
	June 30, 2007	June 30, 2006
Aceros Cox S.A. (Chile)	98	98
Gerdau Ameristeel Corporation (Canada) and its subsidiaries:	65	65
Ameristeel Bright Bar Inc. (USA)	65	65
Gerdau Ameristeel MRM Special Sections Inc. (Canada)	65	65
Gerdau Ameristeel Perth Amboy Inc. (USA)	65	65
Gerdau Ameristeel Sayreville Inc. (USA)	65	65
Gerdau Ameristeel US Inc. (USA)	65	65
Sheffield Steel Corporation (USA)	65	65
Pacific Coast Steel Inc. - PCS (USA)	36	-
Gerdau Açominas S.A. (Brazil)	89	89
Gerdau Aços Especiais S.A. (Brazil)	89	89
Gerdau Aços Longos S.A. (Brazil)	89	89
Gerdau América do Sul Participações S.A. (Brazil)	89	89
Gerdau Aza S.A. (Chile)	98	98
Gerdau Comercial de Aços S.A. (Brazil)	89	89
Díaco S.A. (Colômbia)	57	57
Grupo Feld, S.A. de C.V. (Mexico) and its subsidiaries (See Note 2.8a)	100	-
Siderurgica Tultitlan S.A. de C.V. (Mexico)	100	-
Ferrotultitlán, S.A. de C.V. (Mexico)	100	-
Arrendadora Valle de Mexico, S.A. de C.V. (Mexico)	100	-
Gerdau Internacional Empreendimentos Ltda. (Brazil) and its wholly owned subsidiary Gerdau GTL Spain S. L. (Spain) and subsidiaries	98	98
Gerdau Laisa S.A. (Uruguay)	98	98
Maranhão Gusa S.A. – Margusa (Brazil)	89	89
Paraopeba - Fundo de Investimento Renda Fixa (Brazil)	97	95
Seiva S.A. – Florestas e Indústrias (Brazil)	97	97
Sipar Aceros S.A. (Argentina)	72	72
Sidelpa S.A. (Colombia)	95	95
Corporación Sidenor S.A. and its subsidiaries (Spain)	40	40
Sidenor Industrial S.L. (Spain)	40	40
Forjanor S.L. (Spain)	40	40
GSB Acero S.L. (Spain)	40	-
Aços Villares S.A. (Brazil)	23	23
Empresa Siderúrgica del Peru S.A.A. – “Siderperu” (Peru)	83	-
Siderúrgica Zuliana C.A. (Venezuela) (See Note 2.8b)	100	-

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2.8 Acquisitions

(a) Grupo Feld S.A. de C. V.

On March 28, 2007, the Company has acquired 100% of capital stock of Grupo Feld S.A. de C.V., a Mexican Group which owns three companies: Siderurgica Tultitlán S.A. de C.V. (“Sidertul”), a long steel mini-mill located on Ciudad de México, which produces 350,000 tones of crude steel and 330,000 tones of rolled steel; Ferrotultitlán S.A. de C.V. (“Ferrotul”), which is the trading company of the group, and basically trades steel products produced by Sidertul, and also Arrendadora Valle de Mexico S.A. de C.V. (“Arrendadora”), which is a real state company which owns the land and buildings were Sidertul is located.

Total price paid for this acquisition was \$258,840. The Company has made a preliminary estimation of fair value of assets acquired and liabilities assumed, and those assets and liabilities are described below:

Net assets (liabilities) acquired	
Current assets	43,648
Property, plant and equipment	108,522
Other non-current assets	3,862
Goodwill	124,977
Current liabilities	(20,783)
Non-current liabilities	(1,386)
	<u>258,840</u>
 Purchase price	 258,840

(b) Siderúrgica Zuliana C.A.

On June 15, 2007, the Company has acquired 100% of capital stock of Siderúrgica Zuliana C.A., a Venezuelan company which operates one steel mill in the city of Ciudad Ojeda, Venezuela, with an annual production capacity of 300,000 tones of crude steel and 200,000 tones of rolled steel.

Total consideration for this acquisition was \$92,499, of which \$4,593 has been already paid in cash. The remaining amount will be paid during the third quarter of 2007. The Company has made a preliminary estimation of fair value of assets acquired and liabilities assumed, and those assets and liabilities are described below:

Net assets (liabilities) acquired	
Current assets	12,296
Property, plant and equipment	27,960
Other non-current assets	1,010
Goodwill	58,293
Current liabilities	(4,710)
Non-current liabilities	(2,350)
	<u>92,499</u>
 Purchase price	 92,499

(c) Multisteel Business Holdings Corp.

On May 25, 2007, the Company has acquired a 30.45% interest on Multisteel Business Holdings Corp., which is a holding company of Industrias Nacionales, C. por A. (“INCA”), a company located in Santo Domingo,

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Dominican Republic. INCA is a rolling mill steel company, with annual capacity of around 350,000 tonnes of rolled steel. This partnership will allow the Company to access the Caribbean market.

Total consideration paid for this interest was \$42,900, and the Company has preliminary computed a goodwill of \$21,626, which was not yet allocated. This investment is recorded under the equity method. As per the purchase agreement, the Company agrees to paid contingent consideration based on futures earnings of the acquired investment. Such earn-out clauses provides for additional payment if a certain level of EBITDA (defined in the contract) is reached on the following 5 years. Such contingent consideration will be included in the goodwill, when it is considered as a liability of the Company.

(d) SJK Steel Co.

On June 22, the Company and Kalyani Group, from India, have signed a joint venture agreement for an investment in Tadipatri, India. The joint venture involves a stake of 45% of ownership of SJK Steel Co., a steel making company with two LD converters, one continuous cast mill and also a facility for pig iron production. The agreement provides for joint control, and investments are estimated in \$71,000, depending on several preceding conditions, which were not met at June 30, 2007. Therefore, no cash was effectively paid out on this date.

(e) Valley Places, Inc,

On June 17, 2007, Pacific Coast Steel (“PCS”), a 55% owned joint venture of the Company completed the acquisition of the assets of Valley Placers, Inc. (“VPI”), a reinforcing steel contractor in Las Vegas, Nevada, for approximately \$8,800 in cash. In addition to contracting activities, VPI operates a steel fabrication facility and retail construction supply business. VPI currently employs more than 110 field ironworkers and specializes in smaller commercial, retail and public works projects.

(f) Empresa Siderúrgica del Perú S.A.A – Siderperu

During the second quarter of 2007, the Company has finalized its process of purchase price allocation for the acquisition of Siderperu. According to the final estimation of fair value acquired, the Company has determined the fair value of consideration given was lower than the fair value of assets acquired and liabilities assumed; therefore, the Company identified a negative goodwill in this acquisition. Such negative goodwill was allocated to the long term assets acquired, reducing the amount of fair value initially computed. The following table summarizes the final computation of estimated fair value of assets acquired and liabilities assumed for Siderperu as of the date of the acquisition, including final allocation of negative goodwill:

Net assets (liabilities) acquired	
Current assets	116,533
Property, plant and equipment	138,823
Other non-current assets	290
Current liabilities	(137,487)
Non-current liabilities	(18,589)
Minority interest	(12,651)
	<u>86,919</u>
Purchase price	77,427
Plus transaction costs	9,492
Total purchase price consideration	<u>86,919</u>

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3 Inventories

	June 30,		December
	2007	2006	31, 2006
Finished products	1,035,905	724,974	891,724
Work in process	601,530	480,909	539,496
Raw materials	583,968	536,988	519,245
Packaging and maintenance supplies	340,574	201,807	317,169
Advances to suppliers of materials	117,846	83,451	113,244
	<u>2,679,823</u>	<u>2,028,129</u>	<u>2,380,878</u>

4 Property, plant and equipment, net

	June 30,		December
	2007	2006	31, 2006
Buildings and improvements	1,796,413	1,377,189	1,555,944
Machinery and equipment	5,933,022	4,606,802	5,283,344
Vehicles	56,545	47,151	50,542
Furniture and fixtures	83,066	54,251	71,847
Other	432,711	327,811	360,346
	<u>8,301,757</u>	<u>6,413,204</u>	<u>7,322,023</u>
Less: Accumulated depreciation	(3,556,693)	(2,687,784)	(2,994,815)
	<u>4,745,064</u>	<u>3,725,420</u>	<u>4,327,208</u>
Land	427,791	291,355	384,482
Construction in progress	1,876,091	1,001,797	1,278,939
Total	<u>7,048,946</u>	<u>5,018,572</u>	<u>5,990,629</u>

As of June 30, 2007, machinery and equipment with a net book value of \$971,068 was pledged as collateral for long-term debt.

5 Debt and debentures

Short-term debt

Short-term debt consists of working capital loans and export advances, mainly denominated in U.S. dollars and euros. Advances received against export commitments are obtained from commercial banks with a commitment that the products will be exported.

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Long-term debt

Long-term debt consisted of the following:

	Weighted average Annual Interest Rate % at	June 30, 2007	June 30, 2006	December 31, 2006
	June 30, 2007			
Long-term debt, excluding debentures, denominated in Brazilian reais				
Working capital	10.86%	53,120	50,858	50,532
Financing for investments	9.27%	84,253	125,507	426,907
Financing for machinery	10.86%	650,394	337,469	321,119
Long-term debt, excluding debentures, denominated in foreign currencies				
(a) Long-term debt of Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Aços Villares:				
Working capital (US\$)	6.19%	37,884	121,200	107,872
Guaranteed Perpetual Senior Securities (US\$)	9.75%	600,000	600,000	600,000
Financing for machinery and others (US\$)	7.41%	868,310	562,058	867,817
Export Receivables Notes by Gerdau Açominas (US\$)	7.37%	185,658	223,100	203,882
Advances on exports (US\$)	6.61%	357,475	293,072	309,663
Financing for investments (US\$)	6.41%	11,316	-	13,181
(b) Long-term debt of Sipar Aceros, Diaco, Sidelpa, Gerdau Aza S.A., Siderperú and Siderúrgica Zuliana				
Financing for investments (US\$)		-	69,395	45,667
Working capital (US\$)	6.19%	112,490	-	-
Working capital (Chilean pesos)	7.50%	3,202	-	3,483
Working capital (Colombian Pesos)	8.78%	1,291	1,849	1,134
Working capital (Argentinean Pesos)		-	26	-
(c) Long-term debt of Gerdau Ameristeel				
Senior notes, net of original issue discount (US\$)	10.38%	400,228	399,214	397,512
Senior notes, net of original issue discount (US\$) from Sheffield Steel		-	87,795	-
Senior Secured Credit Facility (Canadian dollar -Cdn\$ and US\$)		-	-	490
Industrial Revenue Bonds (US\$)	3.77% to 6.38%	54,600	31,600	31,600
Other	6.24%	264	2,061	4,995
(d) Long-term debt of Corporación Sidenor				
Working capital (Euros)	5.15%	263,453	113,969	304,835
		3,683,938	3,019,173	3,690,689
Less: current portion		(459,507)	(410,333)	(561,821)
Long-term debt, excluding debentures, less current portion		<u>3,224,431</u>	<u>2,608,840</u>	<u>3,128,868</u>
2008		312,217		
2009		598,254		
2010		435,634		
2011		712,321		
After 2011		<u>1,166,005</u>		
		<u>3,224,431</u>		

IGPM (Índice Geral de Preços – Mercado – “General Index Price – Market”): Brazilian inflation index, computed by Fundação Getúlio Vargas

TJLP (Taxa de Juros de Longo Prazo – “Long term interest rate”): Interest rate set by Government used to index long term loans granted by BNDES (Banco Nacional de Desenvolvimento Econômico e Social – “National Bank for Economic and Social Development”).

Long-term debt, excluding debentures, denominated in Brazilian reais

Long-term debt denominated in Brazilian Reais is indexed for inflation using the TJLP rate set by the Government on a quarterly basis, or based on IGP-M.

Long-term debt, excluding debentures, denominated in foreign currencies

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(a) Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais, Gerdau Comercial de Aços and Aços Villares

The debt agreements entered into by the Company's Brazilian subsidiaries contain covenants that require the maintenance of certain ratios, as calculated in accordance with the Company's financial statements prepared in accordance with Brazilian GAAP. The covenants include several financial covenants including ratios on liquidity, total debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in the respective debt agreements), debt service coverage and interest coverage, amongst others. At June 30, 2007, the Company was in compliance with all of its debt covenants.

Export Receivables Notes issued by Gerdau Açominas

On September 5, 2003, Gerdau Açominas concluded a private placement of the first tranche of Export Notes in the amount of \$105,000. The Export Notes bear interest of 7.37% p.a., with final due date in July 2010, and have quarterly payments starting October 2005. On June 3, 2004 Gerdau Açominas S.A. also placed privately the second tranche for a notional amount of \$128,000 of its Export Receivables Notes. This second tranche was placed with a final maturity of 8 years (April 2012) and interest of 7.321% p.a. The notes have a quarterly amortization starting in July 2006.

Guaranteed Perpetual Senior Securities

On September 15, 2005, Gerdau S.A. concluded a private placement of the \$600,000 with 8.875% p.a. of interest bearing Guaranteed Perpetual Senior Securities. Such bonds are guaranteed by the following operating companies of Gerdau based in Brazil: Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The bonds do not have a stated maturity date but should be redeemed by Gerdau S.A. in the event of certain specified events of default (as defined in the terms of the bonds) which are not fully under the control of the Company. The Company has a call option to redeem these bonds at any moment after 5 years of placement (September 2010). Interest payments are due on a quarterly basis, and each quarterly payment date is also a call date after September 2010.

(b) Sipar Aceros, Diaco, Sidelpa, Gerdau AZA, Siderperú and Siderúrgica Zuliana

Most of debt in Latin America (except Brazil) is related to financing for the acquisition of interests in Diaco and Sidelpa, denominated in U.S. dollars and contracted with Banco de Chile. Such debt matures in 2010, and bears interest of Libor + 1.4% p.a..

On this quarter, the subsidiary Siderperú has obtained a financing for working capital of \$110,140, maturing on 2014 with a variable rate of Libor + 0.9% p.a.. Such proceeds were used to pay out the outstanding debt with suppliers and credits acquired by the Company by the time of the acquisition of this subsidiary.

(c) Gerdau Ameristeel Debt

On June 27, 2003, Gerdau Ameristeel refinanced its debt by issuing Senior Notes with aggregate principal in the amount of \$405,000 and interest of 10 3/8%. The notes mature July 15, 2011 and were issued at 98% of face value. Gerdau Ameristeel's first opportunity to call these senior notes is on July 15, 2007 at a redemption price of 105 3/8%.

In 2005, Gerdau Ameristeel entered into a new Senior Secured Credit Facility, which provided commitments of up to \$650,000 and expires on October 31, 2010. On February 6, 2007, Gerdau Ameristeel completed an amendment to the Senior Secured Credit Facility which increased the amount of net intercompany balances that are permitted to exist between the credit parties and Gerdau Ameristeel's U.S. operating subsidiaries until July 31, 2007. The lenders concurrently waived a covenant non-compliance related to these balances. Gerdau

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Ameristeel is in compliance with the terms of the amended facility. The borrowings under the Senior Secured Credit Facility are secured by the Gerdau Ameristeel's inventory and accounts receivable. At June 30, 2007, there was nothing drawn against this facility and based upon available collateral under the terms of the agreement, approximately \$592,200 was available under the Senior Secured Credit Facility, net of \$57,800 of outstanding letters of credit.

(d) Lines of credit:

In October, 2005, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços have obtained a pre-approved line of credit from BNDES for the purchase of machinery and related expenses for a total amount of \$467,241, bearing interest of TJLP+3% p.a. Amounts will be released as investments are made by the subsidiaries and they present to BNDES documentation supporting the investments made. At June 30, 2007, \$190,027 were drawn against this facility. These contracts are guaranteed by INDAC (parent company of Metalúrgica Gerdau S.A.).

In August, 2006, Gerdau Açominas obtained approval of a credit facility with BNDES in the total amount of \$178,979 for the increase of production capacity of liquid steel of its Ouro Branco mill, from the current total annual production of 3.0 million tons/year to 4.5 million tons/year, through investment in a new coke plant, sinter plant and a new blast furnace, and for the social projects to be conducted directly or in partnership with public or non-for-profit private institutions to assist local community. This credit facility bears interest of TJLP+2% p.a. Such contracts are guaranteed by INDAC and are also subject to some financial covenants based on financial information of Metalúrgica Gerdau. At June 30, 2007, \$140,190 were drawn against this facility.

The Company announced the conclusion, on November 1, 2006, of a Senior Liquidity Facility. This facility amounts to \$400,000 and the borrower will be GTL Trade Finance Inc., with the guarantee of Gerdau S.A., and of its subsidiaries Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The program has an availability period of 3 years, with 2 years for payment as from the date of each disbursement. The costs involve a facility fee amounting to 0.27% p.a. and interests, in the case disbursements are actually made, of Libor + 0.30% to 0.40% p.a.. At June 30, 2007, nothing was drawn under this facility.

Gerdau Açominas also has available the following lines of credit:

- \$267,000 from a consortium of banks led by Citibank, N.A, Tokyo Branch guaranteed by Nippon Export and Investment Insurance (NEXI), maturing in 10 years, with 2 grace years and 8 years for repayment, bearing interest of Libor +0.3% p.a. This amount will be used in the expansion of the Ouro Branco industrial facility. At June 30, 2007, \$224,000 were drawn against this facility.
- \$69,000 from Export Development Canada, guaranteed by KFW Ipex Bank, maturing in 6 years, with 2 grace years and repayment in 4 years bearing interest of 7.22% p.a. At June 30, 2007, \$42,000 were drawn against this facility.
- \$201,000 from BNP Paribas – France (50%) and from Industrial and Commercial Bank of China (50%), guaranteed by SINOSURE (China Export & Credit Insurance Corporation), maturing in 12 years, with 3 grace years and 9 years for repayment bearing interest of 6.97% p.a. At June 30, 2007, \$156,000 were drawn against this facility.

In March, 2007, the Company obtained an approval of a Commercial Loan with BNP Paribas, guaranteed by SINOSURE (China Export & Credit Insurance Corporation), in the total amount of \$50,000. This loan has been taken in order to finance 15% of the new coke plant, sinter plant and a new blast furnace for the Ouro Branco mill. At June 30, 2007, \$50,000 were drawn against this facility.

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Gerdau AZA has available the following line of credit:

- \$97,058 of lines for working capital, bearing interest of 5.76% p.a. At June 30, 2007, no amounts were withdrawn.

Gerdau Ameristeel has available the following line of credit:

- \$75,000 of a credit facility with KfW to provide financing for capital expenditures, expiring on November 30, 2008 and is secured by equipment purchased with the financing. At June 30, 2007, nothing was drawn on this facility.

Debentures

Debentures as of June 30, 2007 include five outstanding issuances of Gerdau, convertible debentures of Gerdau Ameristeel and debentures issued by Aços Villares S.A., as follows:

	Issuance	Maturity	June 30,		December 31, 2006
			2007	2006	
Debentures, denominated in Brazilian reais					
Third series	1982	2011	64,834	63,394	57,782
Seventh series	1982	2012	83,054	18,708	18,121
Eighth series	1982	2013	161,023	114,343	110,225
Ninth series	1983	2014	74,651	84,462	77,167
Eleventh series	1990	2020	65,142	47,002	45,840
Aços Villares S.A.	2005	2010	159,529	133,310	143,424
Debentures, denominated in Canadian dollars					
Gerdau Ameristeel's convertible debentures	1997	2007	-	103,185	-
			608,233	564,404	452,559
Less: Debentures held by consolidated companies eliminated in consolidation			(85,671)	(12,988)	(7,908)
Total			522,562	551,416	444,651
Less: current portion (presented under Other current liabilities in the consolidated balance sheet)			(1,394)	(106,963)	(1,371)
Total debentures – long-term			<u>521,168</u>	<u>444,453</u>	<u>443,280</u>

Debentures issued by Gerdau

Debentures are denominated in Brazilian reais and bear variable interest at a percentage of the CDI rate (*Certificado de Depósito Interbancário*, interbank interest rate). The annual average nominal interest rates were 11.89%, 15.18% and 15.03% as of June 30, 2007 and 2006 and December 31, 2006, respectively.

Debentures issued by Aços Villares S.A.

Debentures issued by Aços Villares S.A. are denominated in Brazilian reais and bear variable interest at a percentage of 104.5% of the CDI rate, and mature in 5 years on September 1, 2010. The principal amount will be paid in 8 quarter installments beginning on December 1, 2008.

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6 Commitments and contingencies

The Company and its subsidiaries are party to claims with respect to certain taxes, civil and labor matters. Management believes, based in part on advice from legal counsel, that the provision for contingencies is sufficient to meet probable and reasonably estimable losses from unfavorable rulings, and that the ultimate resolution will not have a significant effect on the consolidated financial position as of June 30, 2007.

The following table summarizes the contingent claims and related judicial deposits:

Claims	Contingencies			Judicial deposits		
	June 30,		December	June 30,		December
	2007	2006	31, 2006	2007	2006	31, 2006
Tax	144,375	142,691	134,038	70,582	53,188	59,642
Labor	51,500	41,823	43,866	14,308	4,855	12,330
Other	11,885	20,932	11,821	7,084	12,277	8,131
	<u>207,760</u>	<u>205,446</u>	<u>189,725</u>	<u>91,974</u>	<u>70,320</u>	<u>80,103</u>

Probable losses on tax matters, for which a provision was recorded

All contingencies described in the section below correspond to instances where the Company is challenging the legality of taxes and contributions. The description of the contingent losses includes a description of the tax or contribution being challenged, the current status of the litigations as well as the amount of the probable loss which has been provided as of June 30, 2007.

- Of the total provision, \$47,467 relates to a provision recorded by the subsidiary Gerdaу Açominas on demands made by the Federal Revenue Secretariat regarding Import Taxes, Taxes on Industrialized Products (“IPI – Imposto sobre Produtos Industrializados”) and related charges, due to transactions carried out under drawback concessions originally granted and afterwards annulled by DECEX (Foreign Operations Department). Management does not agree with the administrative decision which has annulled the drawback concession and believes all transactions were carried out under the terms of the law. This demand is currently awaiting designation of a responsible judge of the Court.
- \$26,782 relates to amounts for State Value Added Tax (“Imposto Sobre Circulação de Mercadorias e Serviços” - ICMS), the majority of which is related to credit rights involving the Finance Secretary and the State Courts of First Instance in the state of Minas Gerais.
- \$19,351 corresponds to contributions due to the social security authorities which are related to suits for annulment by the Company in progress in the Federal Court of First Instance in the state of Rio de Janeiro. The amount provided also refers to lawsuits questioning the position of the National Institute of Social Security (“Instituto Nacional da Seguridade Social” - INSS) in terms of charging INSS contributions on profit sharing payments made by the subsidiary Gerdaу Açominas and several INSS assessments due to services contracted from third parties, in which the INSS accrued debts related to the last 10 years and assessed Gerdaу Açominas as jointly responsible. The assessments were reaffirmed by the INSS when challenged by the Company and are currently being challenged by Gerdaу Açominas in annulment proceedings with deposit in court of the amount being discussed, since the Company understands that the right to set up part of the credits had expired, and that, in any event, the Company is not responsible.
- \$17,574 relates to the Emergency Capacity Charge (“Encargo de Capacidade Emergencial” – ECE), as well as \$11,258 related to the Extraordinary Tariff Recomposition (“Recomposição Tarifária Extraordinária – RTE), which are charges included in the electric energy bills of the Company’s plants. According to the Company, these charges are of a tax nature and, as such, are incompatible with the National Tax System provided in the Federal Constitution. For this reason, the constitutionality of this charge is being challenged in court. The

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lawsuits are in progress in the Federal Justice of the First Instance of the states of São Paulo and Rio Grande do Sul, as well as in the Federal Regional Courts. The Company has fully deposited in court the amount of the disputed charges.

- The Company is also defending other taxes in the amount of \$21,943 for which a provision has been made following advice from Company's legal counsel.

Possible or remote losses on tax matters for which no provision was recorded

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

- The Company is defendant in debt foreclosures filed by the State of Minas Gerais to demand ICMS credits arising mainly from the sales of products to commercial exporters. The total amount of the processes is \$17,841. The Company did not set up a provision for contingency in relation to these processes, since it considers this tax is not payable, because products for export are exempted from ICMS.
- The Company and its subsidiary Gerdau Açominas are defendants in tax foreclosures filed by the state of Minas Gerais, which demand ICMS credits on the export of semi-finished manufactured products. The total amount demanded is \$37,570. The Company did not set up a provision for contingency in relation to these processes since it considers the tax as not payable, because the products do not fit in the definition of semi-finished manufactured products defined by the federal complementary law and, therefore, are not subject to ICMS.
- The Company has entered into Fiscal Recovering Program ("Programa de Recuperação Fiscal" – REFIS) on December 6, 2000, which allowed the Company to pay PIS and Cofins debts in 60 monthly installments. The final installment has been paid in May 31, 2005. There is a remaining balance being challenged amounting to \$6,299, once certain outstanding issues identified in the administrative proceeding that the Company moves before the Management Committee of REFIS, the management believes the refinancing program will be finally extinguished.

Unrecognized contingent tax assets

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

- Among them is a court-ordered debt security issued in 1999 in favor of the Company by the state of Rio de Janeiro in the amount of \$13,799 arising from an ordinary lawsuit regarding non-compliance with the Loan Agreement for Periodic Execution in Cash under the Special Industrial Development Program - PRODI. Due to the default by the State of Rio de Janeiro and the non-regulation of the Constitutional Amendment 30/00, which granted the government a 10 year moratorium for the payment of securities issued to cover court-order debt not related to food. There are no expectation of realization of this credit in 2007 or in the following years, therefore is not recognized.
- The Company and its subsidiary Gerdau Açominas and Margusa – Maranhão Gusa S.A. are claiming recovery of IPI premium credits. Gerdau S.A. and its subsidiary Margusa – Maranhão Gusa S.A. have filed administrative appeals, which are pending judgment. With regard to the subsidiary Gerdau Açominas S.A., the claims were filed directly to the courts and a decision unfavorable to Gerdau Açominas was issued and has been appealed by Gerdau Açominas. The Company estimates a credit in the amount of \$122,597. The credit is not recognized due to the uncertainty of the realization.

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Labor contingencies

The Company is also defending labor proceedings, for which there is a provision as of June 30, 2007 of \$51,500. None of these lawsuits refers to individually significant amounts, and the lawsuits mainly involve claims due to overtime, health and risk premiums, among others. The balances of deposits in court related to labor contingencies, at June 30, 2007, totaled \$14,308.

Other contingencies

The Company is also defending in court civil proceedings arising from the normal course of its operations and has accrued \$11,885 for these claims. Escrow deposits related to these contingencies, at June 30, 2007, amount to \$7,084.

Other contingent liabilities with remote or possible chances of loss, involving uncertainties as to their occurrence, and therefore, not included in the provision for contingencies, are comprised by:

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

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

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

On July 26, 2006, due to a reversal of decision terms pronounced by CADE, the Company appealed to the Justice using a new ordinary lawsuit which point out irregularities in the administrative procedures conducted by CADE. The federal judge designated for the analysis of the fact decided, on August, 30, 2006 to suspend the effect of CADE decision until a final decision is taken with respect to this judicial process and requested a guarantee through a stand-by letter amounting to 7% of gross revenue less taxes in 1999 (\$127,230). This ordinary lawsuit proceeds together with the injunction originally proposed on CADE. On June 28, 2007 was commanded the publication of the expedition, giving science to the parts of the judgment decision of the first resort on the anticipation maintenance of the granted guardianship, after the CADE plea.

Prior to CADE decision, the Federal Public Ministry of Minas Gerais (“Ministério Público Federal de Minas Gerais”) had presented a Public Civil Action, based on SDE opinion, without any new facts, accusing the Company of involvement in activities that breach antitrust laws. The Company has presented its defense on July 22, 2005.

Gerdau S.A. denies having engaged in any type of anti-competitive behavior and understands, based on information available, including the opinion of its legal advisors that the administrative process until now

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includes many irregularities, some of which are impossible to resolve. The Company believes it has not practiced any violation of anti-trust regulation, and based on opinion of its legal advisors believes in a reversion of this unfavorable outcome.

Insurance claim

A civil lawsuit was filed by Sul América Cia Nacional de Seguros on August 4, 2003 against Gerdau Açominas and Banco Westdeutsche Landesbank Girozentrale, New York Branch (WestLB), for the payment of \$17,850 which was deposited in court to settle an insurance claim made by Gerdau Açominas. The insurer pleads uncertainty in relation to whom payment should be made and alleges that the Company is resisting in receiving and settling it. The lawsuit was contested by both the bank (which claimed having no right over the amount deposited, solving the question raised by Sul América) and the Company (which claimed inexistence of uncertainty and justification to refuse the payment, since the amount owed by Sul América is higher than stated). After this pleading, Sul América claimed fault in the bank's representation, and this matter is therefore already settled, which resulted collection by Gerdau Açominas in December 2004 of the amount deposited by the insurer. Gerdau Açominas has also claimed on a judicial proceeding the amount recognized by the insurers, previous to the civil lawsuit commented above. These proceedings are included in the main lawsuit, and the Company expects to be successful with this claim.

The civil lawsuits arise from the accident on March 23, 2002 with the blast furnace regenerators of the Presidente Arthur Bernardes mill, which resulted in stoppage of several activities, material damages to the steel mill equipment and loss of profits. The equipment, as well as loss of profits arising from the accident, was covered by an insurance policy. The report on the event, as well as the loss claim was filed with IRB - Brasil Resseguros S.A., and the Company received an advance of \$32,188 during 2002.

In 2002, a preliminary estimate of indemnities related to the coverage of loss of profits and material damages, in the total amount of approximately \$57,107, was recorded, based on the amount of fixed costs incurred during the period of partial stoppage of the steel mill and on the expenses incurred to recover the equipment temporarily. This estimate is close to the amount of the advance received, plus the amount proposed by the insurance company as a complement for settling the indemnity. Subsequently, new amounts were added to the discussion, as demonstrated in the Company's appeal, although they were not accounted for as well as other costs to recover damage caused by the accident. When confirmed, those gains will be recorded in the financial statements. The suit meets with the engineering and accounting skills in progress, when the pointed value will be demonstrated judicially by the Company.

Based on the opinion of its legal advisors, management considers that losses from other contingencies are remote, and that eventual losses would not have a material adverse effect on the consolidated results of operations, consolidated financial position of the Company or its future cash flows.

7 Shareholders' equity

Share capital

As of June 30, 2007, 231,607,008 shares of Common stock and 435,986,041 shares of Preferred stock had been issued. The share capital of the Company is comprised of Common shares and Preferred shares, all without par value. The authorized capital of the Company is comprised of 400,000,000 Common shares and 800,000,000 Preferred shares. Only the Common shares are entitled to vote. There are no redemption provisions associated with the Preferred shares. The Preferred shares have preferences in respect of the proceeds on liquidation of the Company.

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At June 30, 2007, the Company held in treasury 5,030,532 preferred shares at a cost of \$45,354 (4,200,596 preferred shares at June 30, 2006 and 5,103,345 at December 31, 2006 at a cost of \$32,594 and at a cost of \$46,010, respectively).

Dividends and interest on capital

On May 14, 2007, the Company has credited \$111,305 as interest on capital, which constitutes a prepayment of statutory dividends.

8 Earnings per share (EPS)

Pursuant to SFAS No. 128, "Earnings per Share" the following tables reconcile net income to the amounts used to calculate basic and diluted EPS.

Basic

	<u>Six-month period ended</u> <u>June 30, 2007</u>			<u>Six-month period ended</u> <u>June 30, 2006</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Dividends interest on equity declared	64,730	120,436	185,166	35,969	67,185	103,154
Allocated undistributed earnings	<u>229,358</u>	<u>426,742</u>	<u>656,100</u>	<u>259,596</u>	<u>484,889</u>	<u>744,485</u>
Allocated net income available to Common and Preferred shareholders	<u>294,088</u>	<u>547,178</u>	<u>841,266</u>	<u>295,565</u>	<u>552,074</u>	<u>847,639</u>
Basic denominator						
Weighted-average outstanding shares, deducting the average treasury shares.	<u>231,607,008</u>	<u>430,926,433</u>		<u>231,607,008</u>	<u>432,620,192</u>	
Earnings per share (in US\$) – Basic	<u>1.27</u>	<u>1.27</u>		<u>1.28</u>	<u>1.28</u>	
	<u>Three-month period ended</u> <u>June 30, 2007</u>			<u>Three-month period ended</u> <u>June 30, 2006</u>		
	<u>Common</u>	<u>Preferred</u>	<u>Total</u>	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Dividends interest on equity declared	38,910	72,395	111,305	33,582	62,727	96,309
Allocated undistributed earnings	<u>106,706</u>	<u>198,535</u>	<u>305,241</u>	<u>110,366</u>	<u>206,384</u>	<u>316,749</u>
Allocated net income available to Common and Preferred shareholders	<u>145,616</u>	<u>270,930</u>	<u>416,546</u>	<u>143,948</u>	<u>269,111</u>	<u>413,058</u>
Basic denominator						
Weighted-average outstanding shares, deducting the average treasury shares.	<u>231,607,008</u>	<u>430,945,539</u>		<u>231,607,008</u>	<u>432,990,363</u>	
Earnings per share (in US\$) – Basic	<u>0.63</u>	<u>0.63</u>		<u>0.62</u>	<u>0.62</u>	

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Diluted

	Three-month period ended June 30,		Six-month period ended June 30,	
	2007	2006	2007	2006
Diluted numerator				
Allocated net income available to Common and Preferred shareholders				
Net income allocated to preferred shareholders	270,930	269,111	547,178	552,074
Add:				
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco and option granted to minority shareholders of Sipar to sell their shares to Gerdau	1,464	1,226	2,988	2,780
	<u>272,394</u>	<u>270,337</u>	<u>550,166</u>	<u>554,854</u>
Net income allocated to common shareholders	145,616	143,948	294,088	295,565
Less:				
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau, option to settle in shares the purchase price of an additional interest in Diaco and option granted to minority shareholders of Sipar to sell their shares to Gerdau	(1,464)	(1,226)	(2,988)	(2,780)
	<u>144,152</u>	<u>142,722</u>	<u>291,100</u>	<u>292,785</u>
Diluted denominator				
Weighted - average number of shares outstanding				
Common Shares	231,607,008	231,607,008	231,607,008	231,607,008
Preferred Shares				
Weighted-average number of preferred shares outstanding	430,945,539	432,990,363	430,926,433	432,620,192
Potential increase in number of preferred shares outstanding in respect of stock option plan	2,109,083	2,070,305	1,923,129	2,107,312
Potential issuable preferred shares with respect to option to settle acquisition of additional interest in Diaco in shares of the Company	3,636,110	2,217,287	3,828,197	2,777,144
Option granted to minority shareholders of Sipar to sell their shares to Gerdau	962,532	1,421,633	1,049,548	1,421,633
Total	<u>437,653,264</u>	<u>438,699,588</u>	<u>437,727,307</u>	<u>438,926,281</u>
Earnings per share (in US\$) – Diluted (Common and Preferred Shares)	<u>0.62</u>	<u>0.62</u>	<u>1.26</u>	<u>1.26</u>

9 Derivative instruments

The use of derivatives by the Company is limited. Derivative instruments are used to manage clearly identifiable foreign exchange and interest rate risks arising out of the normal course of business.

Gerdau and operations in Brazil

As part of its normal business operations, Gerdau and operations in Brazil have obtained U.S. dollars denominated debt at fixed rates which exposes them to market risk from changes in foreign exchange and interest rates. Changes in the rate of the Brazilian real against the U.S. dollar expose Gerdau and operations in Brazil to foreign exchange gains and losses which are recognized in the statement of income and also to changes in the amount of Brazilian reais necessary to pay such U.S. dollar denominated debt. Changes in interest rates on their fixed rate debt expose Gerdau and operations in Brazil to changes in fair value on its debt. In order to manage such risks, Gerdau and operations in Brazil is used to enter into derivative instruments, primarily cross-currency interest rate swap contracts, but also interest rate swaps. Under the swap contracts Gerdau and operations in Brazil have the right to receive on maturity U.S. dollars plus accrued interest at a fixed rate and have the obligation to pay Brazilian reais at a variable rate based on the CDI rate.

Although such instruments mitigate the foreign exchange and interest rate risks, they do not necessarily eliminate them. The Company generally does not hold derivative instruments for trading purposes.

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All swaps have been recorded at fair value and realized and unrealized losses are presented in the consolidated statement of income under "Gain (losses) on derivatives, net".

Gerdau Açominas entered into interest rate swaps where it receives a variable interest rate based on LIBOR and pays a fixed interest rate in U.S. dollars. The agreements have a notional value of \$299,125 and expiration date between June 15, 2010 and November 30, 2011. The aggregate fair value of this interest rate swap, which represents the amount that would be received if the agreements were terminated at June 30, 2007, is a gain of \$ 5,617 (gain of \$12,627 at June 30, 2006 and gain of \$4,826 at December 31, 2006).

Gerdau Açominas also entered on a reverse swap where it receives a fixed interest rate in U.S. dollars and pays a variable interest rate based on JIBOR in Japanese yens, with a notional amount of \$267,000. This swap has a final maturity date on March 24, 2016. The aggregate fair value of this swap, which represents the amount that would be paid if the agreements were terminated at June 30, 2007, is a loss of \$12,811 (loss of \$ 5,657 at June 30, 2006 and loss of \$8,363 at December 31, 2006).

Gerdau Açominas also entered on a swap where it receives a variable amount of interest based on JIBOR in Japanese yens, and pays a fixed interest rate in U.S. dollars, with a notional amount of \$34,000. These swaps have a final maturity date between August 15, 2007 and November 16, 2007. The aggregate fair value of these swaps, which represents the amount that would be received if the agreements were terminated at June 30, 2007, is a gain of \$1,870 (no unrealized gains or losses at June 30, 2006 and gain of \$1,797 at December 31, 2006).

GTL Equity Investments Corp. entered on a swap where it receives an amount of interest based on defined fixed rates, and pays a variable interest rate based on LIBOR, with a notional amount of \$20,000. These swaps have a final maturity date between September 26, 2007 and October 11, 2007. Additionally, it contracted cross-currency put options between Brazilian reais and U.S. dollars amounting \$1,273, with final maturity date between July 30, 2007 and September 14, 2007. The aggregate fair value of these swaps and put options, which represents the amount that would be received if the agreements were terminated at June 30, 2007, is a gain of \$933 (no unrealized gains or losses at June 30, 2006 and gain of \$2,564 at December 31, 2006).

Operations in Europe

On January 10, 2006 the Company concluded the acquisition of 40% of Corporación Sidenor S.A. ("Sidenor"), a Spanish steel producer with operations in Spain and Brazil (Aços Villares S.A. – "Aços Villares"). The Santander Group, a Spanish financial conglomerate, and an entity owned by executives of Sidenor contemporaneously acquired 40% and 20% of Sidenor, respectively. Purchase price for the acquisition of 100% of Sidenor consists of a fixed price of Euro 443,820 plus a variable contingent price which is payable only by the Company. The fixed price paid by the Company on January 10, 2006 for its 40% interest in Sidenor amounted to Euro 165.828 (\$ 200,082). The amounts paid under the variable contingent price will be accounted for as additional purchase price consideration once the contingencies are resolved. Contingent price depends on several factors including actual use of existing tax credits, potential gains on litigation initiated by a subsidiary of Corporación Sidenor and final destination of a plot of land currently occupied by Corporación Sidenor. Considering that contingent consideration exists which may result in additional purchase price part of the originally determined amount of excess of fair value of assets acquired and liabilities assumed in relation to purchase price has been recorded under "Deferred credit related to acquisition of Corporación Sidenor". The amount then recorded is the lesser of estimated maximum contingent consideration and the excess of fair value over purchase price originally determined. The maximum contingent consideration has been estimated by management based on assumptions and information available as of the date of acquisition. The amount recorded as of June 30, 2007 related to the estimated maximum contingent consideration is \$109,692. Santander Group holds a put option to sell their interest in Sidenor to the Company, after 5 years from the purchase, at a fixed price plus accrued interests computed using a fixed interest rate. The Company has agreed to guarantee to the Santander Group the payment of an agreed amount (equal to the fixed price under the put option referred to above plus accrued interest computed using the same fixed interest rate) after 6 years from the purchase in the event that Santander Group has not sold the shares acquired up to such date or, if the Santander Group sells its

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interest at a price higher or lower than the agreed amount the difference will be paid by Santander Group to the Company or by the Company to Santander Group, respectively. The guarantee may be exercised by the Santander Group at any time after 6 years. The Company's obligation to purchase from Santander Group its 40% interest in Corporación Sidenor is recorded in Minority Interest. As of June 30, 2007, such obligation amounts to \$350,481.

During the second quarter, the subsidiary Gerdau Aços Especiais has reached an agreement with BNDES Participações S.A. ("BNDESPAR"), which is the largest minority shareholder of Aços Villares. This agreement provides BNDESPAR a put option to sell its stake of 28.8% in Villares to the Company, for a determinable price. Such price was determined to be the higher of: (a) the offering price included in the public offering the Company has made when the acquisition of Corporación Sidenor was completed last year, plus interest of TJLP + 4% p.a., less any dividends paid by Villares capitalized on the same interest, or (b) the price per share of the public offering divided by 130% of the price of Gerdau S.A. shares, which result in a total quantity of options to BNDESPAR. At the end of fifth year of the contract, BNDESPAR has the higher option between (a) or (b) above. From the fifth and up to the seventh year, the option is still outstanding, but the price is only the one described on (a) above. As of June 30, 2007, such put option has an estimated value of \$22,888, and is being recognized under "Other non-current liabilities" on the balance sheet.

Operations in South America

The Company has granted options to the minority shareholders of Sipar Aceros S.A. as part of the purchase agreements of that company by which those shareholders may sell their shares in Sipar Aceros S.A. and settlement can be made (at the option of the Company or of the shareholders depending on the agreement) either in cash or in shares of Gerdau. Such options are accounted for at its estimated fair value, in the amount of \$3,736 as of June 30, 2007, under Other long term liabilities (\$3,552 as of June 30, 2006 and \$1,512 as of December 31, 2006). The Company has a commitment to acquire an additional interest in Diaco which can be settled at the option of the counterparty either in cash or in shares of Gerdau; such commitment is accounted for at its estimated fair value, in the amount of \$99,640, recorded under Other long term assets (\$22,134 as of June 30, 2006 and \$62,164 as of December 31, 2006).

Gerdau Ameristeel

In order to reduce its exposure to changes in the fair value of its Senior Notes, Gerdau Ameristeel entered into interest rate swaps subsequent to the refinancing of its debt. The agreements have a notional value of \$200,000 and expiration dates of July 15, 2011. Gerdau Ameristeel receives a fixed interest rate and pays a variable interest rate based on LIBOR. The aggregate mark-to-market (fair value) of the interest rate agreements, which represents the amount that would be paid if the agreements were terminated at June 30, 2007, is a loss of \$2,548 (loss of \$1,001 at June 30, 2006 and loss of \$3,390 at December 31, 2006).

10 Segment information

There are no significant inter-segment sales transactions and the identifiable assets are trade accounts receivable, inventories and property, plant and equipment.

The following segments correspond to the business units by which the Executive Committee manages its operations:

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Six-month period ended June 30, 2007									
	Long Brazil	Açominas Ouro Branco	Specialty Steel	Latin America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	1,731,810	793,363	814,005	818,386	2,951,834	(256,025)	6,853,373	427,486	7,280,859
Financial income (expenses), net	279,353	(27,176)	(25,571)	(1,549)	(12,648)	-	212,409	(16,689)	195,720
Net income	284,693	121,052	99,974	111,249	278,992	-	895,960	(54,694)	841,266
Capital expenditures	103,198	218,962	71,332	139,427	97,220	-	630,139	428,848	1,058,987
Depreciation and amortization	58,887	86,601	37,954	20,615	67,152	-	271,209	15,969	287,178
Identifiable assets	2,546,665	2,671,580	1,070,100	1,396,255	2,850,607	(305,571)	10,229,636	1,201,247	11,430,883

Six-month period ended June 30, 2006									
	Long Brazil	Açominas Ouro Branco	Specialty Steel	South America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	1,442,141	675,668	570,364	452,834	2,528,469	(348,930)	5,320,546	472,641	5,793,187
Financial income (expenses), net	130,118	45,283	15,363	(1,674)	(24,397)	-	164,693	(9,522)	155,171
Net income	375,727	123,114	63,736	55,838	217,141	-	835,556	12,083	847,639
Capital expenditures	195,011	221,350	204,398	28,885	215,595	-	865,239	10,680	875,919
Depreciation and amortization	52,220	67,994	23,306	17,385	66,720	-	227,625	15,291	242,916
Identifiable assets	1,989,670	1,876,526	695,258	556,641	2,547,645	(15,874)	7,649,866	686,766	8,336,632

Three-month period ended June 30, 2007									
	Long Brazil	Açominas Ouro Branco	Specialty Steel	Latin America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	947,574	437,847	450,679	485,982	1,519,205	(151,680)	3,689,607	101,847	3,791,454
Financial income (expenses), net	157,702	(29,422)	(16,900)	846	(3,795)	-	108,431	(2,979)	105,452
Net income	137,635	61,197	56,162	73,222	143,742	-	471,958	(55,412)	416,546
Capital expenditures	44,581	160,345	12,715	80,810	38,603	-	337,054	96,319	433,373
Depreciation and amortization	25,332	49,382	23,361	10,829	35,019	-	143,923	(8,153)	135,770
Identifiable assets	2,546,665	2,671,580	1,070,100	1,396,255	2,850,607	(305,571)	10,229,636	1,201,247	11,430,883

Three-month period ended June 30, 2006									
	Long Brazil	Açominas Ouro Branco	Specialty Steel	South America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Net sales	699,603	331,004	299,779	233,231	1,396,557	(223,861)	2,736,313	250,312	2,986,625
Financial income (expenses), net	14,033	(21,201)	12,139	(1,320)	(12,452)	-	(8,801)	49,356	40,555
Net income	213,250	33,373	59,553	26,789	127,203	-	460,168	(47,110)	413,058
Capital expenditures	103,594	145,053	3,053	12,354	171,246	-	435,300	28,501	463,801
Depreciation and amortization	22,602	34,083	12,567	7,298	34,972	-	111,522	7,216	118,738
Identifiable assets	1,989,670	1,876,526	695,258	556,641	2,547,645	(15,874)	7,649,866	686,766	8,336,632

Year-end December 31, 2006								
	Long Brazil	Açominas Ouro Branco	Specialty Steel	South America (except Brazil)	North America	Total	Adjustments and reconciliations	Total as per financial statements
Depreciation and amortization	109,469	138,950	47,255	34,902	142,494	473,070	31,058	504,128
Identifiable assets	1,964,106	2,117,343	979,195	940,275	2,574,244	8,575,163	1,079,764	9,654,927

The segment information above has been prepared under Brazilian GAAP and consistent with the criteria used to present segment information at the year end financial statements. The Company's reportable segments under SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" correspond to the business units through which the Gerdau Executive Committee manages its operations: long steel products in Brazil, specialty steel products (which as from its acquisition in January 2006 include the operations of Corporación Sidor), Açominas (corresponding to the operations of the former Açominas carried out through the mill located in Ouro Branco, Minas Gerais), Latin America (which excludes the operations in Brazil) and North America. Corporate activities performed for the benefit of the Group as a whole are not separately presented and are included as part of the information of Long Brazil. Eliminations of intersegment sales and accounts receivables were presented in prior periods within "Long Brazil". As from this year we are presenting those eliminations separately. The financial information for the six-month and three-month periods ended June 30, 2006 currently presented has been reviewed to separately present those eliminations.

Geographic information about the Company presented following the same basis as the financial statement is as follows with revenues classified by the geographic region from where the product has been shipped:

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Six-month period ended June 30, 2007					
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	2,996,004	750,712	2,674,813	859,330	7,280,859
Long lived assets	4,696,860	742,176	1,606,827	795,617	7,841,480
Six-month period ended June 30, 2006					
	Brazil	South America (except Brazil)	North America	Europe	Total
Net sales	2,589,496	446,946	2,265,931	490,814	5,793,187
Long lived assets	3,660,474	304,903	1,413,010	227,147	5,605,534
Three-month period ended June 30, 2007					
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	1,594,773	423,987	1,331,818	440,876	3,791,454
Long lived assets	4,696,860	742,176	1,606,827	795,617	7,841,480
Three-month period ended June 30, 2006					
	Brazil	South America (except Brazil)	North America	Europe	Total
Net sales	1,285,889	231,894	1,206,495	262,347	2,986,625
Long lived assets	3,660,474	304,903	1,413,010	227,147	5,605,534
Year ended December 31, 2006					
	Brazil	South America (except Brazil)	North America	Europe	Total
Long lived assets	3,886,733	347,733	1,539,524	762,295	6,536,285

Long lived assets include property, plant and equipment, equity investments, investments at cost and goodwill.

11 Income tax reconciliation

A reconciliation of the income taxes in the statement of income to the income taxes calculated at the Brazilian statutory rates follows:

	Three-month period ended June 30,		Six-month period ended June 30	
	2007	2006	2007	2006
Income before taxes and minority interest	750,848	649,998	1,461,390	1,318,062
Brazilian composite statutory income tax rate	34%	34%	34%	34%
Income tax at Brazilian income tax rate	255,288	220,999	496,873	448,141
Reconciling items:				
Foreign income having different statutory rates	(39,054)	(6,680)	(51,490)	(26,720)
Non-taxable income net of non-deductible expenses	(2,250)	(10,388)	(12,544)	(15,342)
Tax deductible goodwill recorded on statutory books	(35,260)	(32,027)	(68,475)	(63,919)
Benefit of deductible interest on equity paid to shareholders	(18,864)	(34,758)	(39,426)	(34,758)
Other, net	(5,280)	(8,173)	(3,704)	(16,526)
Income tax expense	<u>154,580</u>	<u>128,973</u>	<u>321,234</u>	<u>290,876</u>

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12 Pension Plans

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

The subsidiaries in North America currently provide specified health care benefits to retired employees. Employees who retire after a certain age with specified years of service become eligible for benefits under this unfunded plan.

The following tables summarize the pension benefits cost and postretirement medical benefit cost included in the Company's consolidated statements of financial position:

Brazil plans

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	4,350	3,330	8,440	6,644
Interest cost	11,627	9,940	22,559	19,831
Expected return on plan assets	(21,345)	(17,848)	(41,414)	(35,609)
Amortization of transition asset	(1,229)	(169)	(2,385)	(338)
Amortization of prior service cost	266	242	516	482
Amortization of net actuarial gain	(404)	(1,231)	(784)	(2,456)
Employees contributions	(743)	(710)	(1,441)	(1,417)
Net pension benefit cost	<u>(7,478)</u>	<u>(6,446)</u>	<u>(14,509)</u>	<u>(12,863)</u>

North America plans

Pension Plan

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	5,989	4,302	11,419	8,532
Interest cost	8,046	6,255	15,229	12,389
Expected return on plan assets	(9,270)	(6,201)	(16,650)	(12,298)
Amortization of transition liability	46	47	96	94
Amortization of prior service cost	1,069	324	1,632	648
Amortization of net actuarial loss	107	837	1,547	1,674
Net pension benefit cost	<u>5,987</u>	<u>5,564</u>	<u>13,273</u>	<u>11,039</u>

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Other benefits

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	864	382	1,371	745
Interest cost	1,878	770	2,999	1,454
Amortization of prior service cost	(78)	(82)	(165)	(164)
Amortization of net actuarial loss	134	25	249	50
Net pension benefit cost	<u>2,798</u>	<u>1,095</u>	<u>4,454</u>	<u>2,085</u>

13 Guarantee of indebtedness

- (a) Gerdau has provided a surety to Dona Francisca Energética S.A., in financing contracts which amount to R\$147,686 (equivalent of \$76,672 at period-end exchange rate). Under the surety, Gerdau guarantees 51.82% (\$39,732) of such debt. This guarantee was established before December 2002, and, therefore, is not covered by the accounting requirements of FASB Interpretation No. 45 ("FIN 45"). The guarantee may be executed by lenders in the event of default by Dona Francisca Energética S.A.
- (b) Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços are the guarantor on Sênior Liquidity Facility of its subsidiary GTL Trade Finance Inc., in amount to \$400,000 (equivalent of R\$770,480 at period-end exchange rate).
- (c) Gerdau is the guarantor on loans of its subsidiary GTL Spain in the amount of \$12,049 and on Export Receivables Notes of its subsidiary Gerdau Açominas S.A. amounting to approximately \$182,862. Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau de Aços guarantee the \$600,000 Perpetual Senior Securities issued by Gerdau S.A. Gerdau also guarantees loans of its subsidiaries Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Siderperu in the amount of \$624,412, \$31,382, \$184 and \$150,000, respectively.

As the guarantees above are between a parent company (the Company) and its subsidiaries they are not subject to the recognition provisions under FIN 45. These guarantees may be executed upon failure by the subsidiaries or by Gerdau in satisfying their financial obligations.

- (d) Gerdau Açominas, Gerdau Comercial de Aços and Gerdau Aços Especiais provides guarantees to Banco Gerdau S.A. that finance sales to selected customers. These sales are recognized at the time the products are delivered. Under the vendor program, the Company is the secondary obligor to the bank. At June 30, 2007 customer guarantees provided by the company totaled \$2,096, \$8,092 and \$10,763 respectively. Since Banco Gerdau S.A., Gerdau Açominas, Gerdau Comercial de Aços and Gerdau Aços Especiais are under the common control of Metalúrgica Gerdau, this guarantee is not covered by the recognition provisions of FASB Interpretation No 45 ("FIN 45").
- (e) GTL Equity provides guarantees to Banco Santa Cruz S.A. of multiple credit facilities of its subsidiary Gerdau Comercial de Aços S.A., in amount to \$2,000 (equivalent of R\$4,101 at period-end exchange rate). Since GTL Equity and Gerdau Comercial de Aços S.A. are both under common control this guarantee is not covered by the recognition provisions of FIN 45.

14 Subsequent events

- (a) In July, 2007, the Company has increased its ownership in Multisteel Business Holdings Corp., from 30.45% to 49%.

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- (b) In July, 2007, the subsidiary Gerdau Ameristeel Corporation announced the definitive agreement for the acquisition of Chaparral Steel Company, for the total price of \$4,220,000. Chaparral Steel is the second largest producer of structural steel in North America, and also a relevant producer of steel bars. Chaparral operates two mini-mills located in Midlothian, Texas and Dinwiddie County, Virginia, with total installed capacity of 2,900,000 tonnes of steel. This transaction is subject to the approval of the regulatory agencies in the US, and shall be completed until the end of the year.
- (c) In July, 2007, Gerdau Ameristeel, through its joint-venture Pacific Coast Steel , announced an agreement for the acquisition of D&R Steel, LLC, which is a company located in Glendale , state of Arizona, United States. D&R Steel is a fabricated rebar supplier , with total installed capacity of approximately 30,000 tonnes per year.
- (d) In July, 2007, the Company, through its subsidiary Sidenor Industrial, announced the acquisition of Trefilados de Urbina, S.A. – Trefusa, which is a company located in Vitoria, Spain. This transaction should be concluded in October/2007. Trefusa is a producer of cold drawn specialty steels.
- (e) On August, 8, 2007, the Board of the Company has approved the payment of interest on capital as a prepayment of statutory dividends. Such interest will be credited to shareholders on the position of August 17, 2007, and shall be paid on August 29, 2007.

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