

GERDAU S.A.

Condensed consolidated
interim financial information
as of and at June 30, 2008 and 2007

Report of independent registered public accounting firm

To the Board of Directors and Shareholders of
Gerdau S.A.
Rio de Janeiro - Brazil

We have reviewed the accompanying condensed consolidated balance sheets of Gerdau S.A. and subsidiaries (the "Company") as of June 30, 2008 and 2007, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month and six-month periods ended June 30, 2008 and 2007, and changes in shareholder's equity for the six-month period ended June 30, 2008 and 2007. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2007, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 31, 2008, 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, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte Touche Tohmatsu
Auditores Independentes
Rio de Janeiro, Brazil
October 3, 2008

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

		ASSETS			
		<u>Note</u>	<u>June 30, (Unaudited)</u>		<u>December</u>
			<u>2008</u>	<u>2007</u>	<u>31, 2007</u>
Current assets					
	Cash and cash equivalents		1,282,875	492,764	1,137,553
	Restricted cash		14	13,466	6,580
	Short-term investments				
	Trading		2,152,298	1,888,538	1,601,594
	Available for sale		55,419	197,457	156,029
	Held to maturity		-	81,124	-
	Trade accounts receivable, net		2,792,586	1,702,114	1,781,357
	Inventories	3	4,700,994	2,679,823	3,416,605
	Unrealized gains on derivatives	9	167	941	8
	Deferred income taxes		7,258	39,550	43,734
	Tax credits		271,152	248,395	340,625
	Prepaid expenses		61,103	50,607	61,383
	Other		187,716	103,602	134,601
	Total current assets		<u>11,511,582</u>	<u>7,498,381</u>	<u>8,680,069</u>
Non-current assets					
	Long-term investments - Available for sale	2.3	54,220	-	-
	Property, plant and equipment, net	4	9,971,870	7,048,946	8,619,714
	Deferred income taxes		140,966	148,808	137,650
	Judicial deposits	6	141,639	91,974	126,311
	Unrealized gains on derivatives	9	41,057	7,569	877
	Tax credits		372,057	243,330	339,830
	Equity investments		640,572	225,590	317,217
	Investments at cost		19,953	18,501	17,281
	Intangible assets, net		797,562	18,618	609,206
	Goodwill		4,926,178	548,443	3,535,326
	Prepaid pension cost		471,173	272,754	393,842
	Advance payment for acquisition of investment		122,932	14,895	34,895
	Other		245,618	231,803	158,412
	Total assets		<u>29,457,379</u>	<u>16,369,612</u>	<u>22,970,630</u>

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
		2008	2007	31, 2007
Current liabilities				
Short-term debt	5	612,166	588,432	762,764
Current portion of long-term debt	5	1,285,920	459,507	655,229
Trade accounts payable		2,124,193	1,269,231	1,455,011
Income taxes payable		213,878	38,387	52,262
Unrealized losses on derivatives	9	1,035	1,216	1,109
Deferred income taxes		128,129	45,294	55,758
Payroll and related liabilities		330,688	227,827	292,522
Dividends and interest on equity payable		11,371	1,217	655
Taxes payable, other than income taxes		301,105	241,026	219,241
Other		428,908	305,141	286,093
Total current liabilities		<u>5,437,393</u>	<u>3,177,278</u>	<u>3,780,644</u>
Non-current liabilities				
Long-term debt, less current portion	5	7,925,659	3,224,431	7,053,916
Debentures	5	473,640	521,168	509,880
Deferred income taxes		1,020,927	406,582	853,128
Accrued pension and other post-retirement benefits obligation		416,473	260,405	425,307
Provision for contingencies	6	261,853	207,760	265,326
Unrealized losses on derivatives	9	6,754	14,329	9,093
Deferred credit related to acquisition of Corporación Sidenor		96,311	109,696	90,089
Other		248,342	255,654	174,839
Total non-current liabilities		<u>10,449,959</u>	<u>5,000,025</u>	<u>9,381,578</u>
Total liabilities		<u>15,887,352</u>	<u>8,177,303</u>	<u>13,162,222</u>
Minority interest		<u>3,226,453</u>	<u>2,161,194</u>	<u>2,804,949</u>
SHAREHOLDERS' EQUITY				
Preferred shares - no par value - 3,000,000,000 authorized shares and 934,793,732 shares issued at June 30, 2008 (871,972,084 at June 30, 2007 and at December 31, 2007, after giving retroactive effect to the stock bonus approved on May 30, 2008 (Note 7).	7	4,775,621	2,253,377	2,253,377
Common shares - no par value - 1,500,000,000 authorized shares and 496,586,494 shares issued at June 30, 2008 (463,214,016 at June 30, 2007 and at December 31, 2007, after giving retroactive effect to the stock bonus approved on May 30, 2008 (Note 7).		2,525,105	1,179,236	1,179,236
Additional paid-in capital		136,835	132,786	134,490
Treasury stock - 11,018,031 preferred and common shares at June 30, 2008 (10,061,064 preferred shares at June 30, 2007 and 9,933,302 at December 31, 2007, after giving retroactive effect to the stock bonus approved on May 30, 2008 (Note 7).		(57,110)	(45,354)	(44,778)
Legal reserve		-	82,603	154,420
Retained earnings		1,649,577	2,108,071	2,569,255
Accumulated other comprehensive income (loss)				
- Foreign currency translation adjustment		1,233,395	285,912	672,657
- Unrealized net gains on pension and postretirement benefits, net of tax		77,335	20,478	77,030
- Unrealized gain (loss) on available for sale securities		(7,776)	14,006	7,772
- Unrealized gain on qualifying cash flow hedge		10,592	-	-
Total shareholders' equity		<u>10,343,574</u>	<u>6,031,115</u>	<u>7,003,459</u>
Total liabilities and shareholders' equity		<u>29,457,379</u>	<u>16,369,612</u>	<u>22,970,630</u>

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

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

	Note	Three-month period ended June 30, (Unaudited)		Six-month period ended June 30, (Unaudited)	
		2008	2007	2008	2007
Sales		7,417,141	4,240,712	13,162,990	8,102,669
Less: Federal and state taxes		(601,270)	(379,624)	(1,127,530)	(693,169)
Less: Discounts		(101,995)	(69,634)	(204,897)	(128,641)
Net sales		6,713,876	3,791,454	11,830,563	7,280,859
Cost of sales		(5,082,967)	(2,809,637)	(8,939,193)	(5,450,693)
Gross profit		1,630,909	981,817	2,891,370	1,830,166
Sales and marketing expenses		(108,139)	(84,736)	(200,526)	(156,968)
General and administrative expenses		(357,963)	(250,125)	(633,071)	(455,298)
Other operating (expenses) income, net		(27,773)	12,941	(35,726)	39,616
Operating income		1,137,034	659,897	2,022,047	1,257,516
Financial expenses		(216,867)	(104,867)	(424,713)	(226,459)
Financial income		124,718	85,325	196,295	209,924
Foreign exchange gains, net		354,422	124,994	361,065	212,255
Gains (losses) on derivatives, net		2,235	(34,731)	6,402	(30,672)
Equity in earnings of unconsolidated companies, net		73,473	20,230	95,438	38,826
Income before taxes on income and minority interest		1,475,015	750,848	2,256,534	1,461,390
Provision for taxes on income	11				
Current		(372,440)	(137,027)	(571,694)	(274,678)
Deferred		(34,205)	(17,553)	(17,589)	(46,556)
		(406,645)	(154,580)	(589,283)	(321,234)
Income before minority interest		1,068,370	596,268	1,667,251	1,140,156
Minority interest		(169,772)	(179,722)	(312,218)	(298,890)
Net income		898,598	416,546	1,355,033	841,266
Per share data (in US\$)					
Basic earnings per share	8				
Preferred		0.64	0.31	0.99	0.63
Common		0.64	0.31	0.99	0.63
Diluted earnings per share					
Preferred		0.64	0.31	0.99	0.63
Common		0.64	0.31	0.99	0.63
Number of weighted-average common shares outstanding (considering the effect to the stock bonus for the previous periods (Note 7)) – Basic and diluted		487,818,990	463,214,016	477,274,001	463,214,016
Number of weighted-average preferred shares outstanding (considering the effect to the stock bonus for the previous periods (Note 7)) – Basic		907,682,784	861,891,078	887,907,330	861,852,866
Number of weighted-average preferred shares outstanding (considering the effect to the stock bonus for the previous periods (Note 7)) – Diluted		912,455,241	875,306,528	893,897,371	875,454,614

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

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

	Three-month period ended		Six-month period ended	
	June 30, (Unaudited)		June 30, (Unaudited)	
	2008	2007	2008	2007
Net income as reported in the consolidated statement of income	898,598	416,546	1,355,033	841,266
Amortization of unrealized gains (losses) on pension and postretirement obligation, net of tax	161	(4,935)	305	(9,574)
Foreign currency translation adjustments	455,052	248,803	560,738	437,710
Unrealized (loss) gain on available for sale securities, net of tax	(19,433)	14,006	(15,548)	14,006
Unrealized gain on qualifying cash flow hedge, net of tax	16,654	-	10,592	-
Comprehensive income for the period	1,351,032	674,420	1,911,120	1,283,408

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)

	Preferred shares	Common shares	Additional paid-in capital	Treasury stock	Legal reserve	Retained earnings	Cumulative other comprehensive income (loss)	Total
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 - \$0.14 per Common share and per Preferred share (*)	-	-	-	-	-	(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>
Balances as of January 1, 2008	2,253,377	1,179,236	134,490	(44,778)	154,420	2,569,255	757,459	7,003,459
Net income	-	-	-	-	-	1,355,033	-	1,355,033
Capital increase through issuance of shares	1,123,718	602,936	-	-	-	-	-	1,726,654
Capital increase through capitalization of reserves	1,398,526	742,933	-	-	(154,420)	(1,987,039)	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	560,738	560,738
Dividends - \$0.20 per Common share and per Preferred share	-	-	-	-	-	(277,371)	-	(277,371)
Amortization of unrealized gains on pension and postretirement obligation, net of tax	-	-	-	-	-	-	305	305
Unrealized gain on qualifying cash flow hedge	-	-	-	-	-	-	10,592	10,592
Unrealized losses on available for sale securities	-	-	-	-	-	-	(15,548)	(15,548)
Minority effect over consolidated entities	-	-	-	-	-	(439)	-	(439)
Purchase of treasury preferred shares	-	-	-	(27,941)	-	-	-	(27,941)
Stock option exercised during the period	-	-	-	15,609	-	(9,862)	-	5,747
Stock option plan expense recognized during the period	-	-	2,345	-	-	-	-	2,345
Balances as of June 30, 2008	<u>4,775,621</u>	<u>2,525,105</u>	<u>136,835</u>	<u>(57,110)</u>	<u>-</u>	<u>1,649,577</u>	<u>1,313,546</u>	<u>10,343,574</u>

(*) Considering retroactive effect to the stock bonus described in Note 7. Preferred treasury stock shares for the six-month periods presented above are not considered to be outstanding.

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)

	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2008	2007	2008	2007
Cash flows from operating activities					
Net income		898,598	416,546	1,355,033	841,266
Adjustments to reconcile net income to cash flows from operating activities:					
Depreciation and amortization		291,830	135,770	535,020	287,178
Equity in earnings on unconsolidated companies		(73,473)	(20,230)	(95,438)	(38,826)
Foreign exchange gain, net		(354,422)	(124,994)	(361,065)	(212,255)
(Gains) losses on derivatives instruments		(2,235)	34,731	(6,402)	30,672
Minority interest		169,772	179,722	312,218	298,890
Deferred income taxes		34,205	17,553	17,589	46,556
Losses on disposal of property, plant and equipment, net		4,378	8,046	1,260	9,380
Provision for doubtful accounts		5,110	1,343	7,110	3,482
Provision (reversion) for contingencies		11,533	435	(22,043)	3,991
Distributions from joint ventures		30,000	11,257	40,404	31,661
Realized losses on writedown of short-term investments		17,004	-	39,671	-
Other, net		6,053	-	7,101	(35)
Changes in assets and liabilities:					
Increase in accounts receivable		(445,108)	(82,312)	(707,506)	(340,378)
Increase in inventories		(667,572)	(170,101)	(870,160)	(135,082)
(Decrease) increase in accounts payable and accrued liabilities		(242,667)	(7,814)	(120,999)	92,324
Decrease (increase) in other assets		33,239	217,703	(7,265)	171,743
Increase in other liabilities		250,440	10,774	148,040	79,258
Purchases of trading securities		(574,984)	(335,303)	(1,332,797)	(414,128)
Proceeds from maturities and sales of trading securities		(273,005)	588,860	1,105,056	941,526
Net cash provided by operating activities		(881,304)	881,986	44,827	1,697,223
Cash flows from investing activities					
Additions to property, plant and equipment		(417,386)	(382,889)	(673,177)	(745,747)
Proceeds from sales of property, plant and equipment		10,250	1,997	13,417	1,997
Payment for acquisition in Argentina		-	-	(1,217)	(3,916)
Payment for acquisition in Colombia	2.8.1 (a)	-	-	(107,194)	-
Payment for acquisition in Guatemala	2.8.1 (f)	(180,000)	-	(180,000)	-
Payment for acquisition in India	2.8.1 (e)	(49,764)	-	(49,764)	-
Payment for acquisition in Mexico	2.8.1 (d)	-	-	(124,666)	(258,840)
Payment for acquisition in Dominican Republic		-	(42,900)	-	(42,900)
Payment for acquisition in United States	2.8.1 (b, g)	(1,672,014)	(4,988)	(1,672,014)	(4,988)
Payment for acquisition in Venezuela		-	(4,593)	-	(4,593)
Cash balance of acquired companies		237,139	3,414	237,139	9,652
Net related party debt loans and repayments		40,420	(313)	5,910	(673)
Purchases of available for sale securities		(54)	(243,969)	-	(461,658)
Proceeds from maturities and sales of available for sale securities		61,487	187,836	58,149	387,631
Net cash used in investing activities		(1,969,922)	(486,405)	(2,493,417)	(1,124,035)

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)

Note	Three-month period ended June 30,		Six-month period ended June 30,	
	2008	2007	2008	2007
Cash flows from financing activities				
Cash dividends and interest on equity paid	(45,406)	(126,612)	(180,961)	(306,898)
Proceeds from exercise of employee stock options	1,187	596	5,747	992
Decrease (increase) in restricted cash	6,133	-	6,668	(6)
Payment for acquisition in Brazil	(36,004)	-	(58,131)	-
Debt issuance	2,079,222	475,138	2,290,427	666,869
Payment of debt	(654,436)	(588,275)	(1,088,898)	(877,830)
Capital Increase	1,735,759	-	1,735,759	-
Net related party debt loans and repayments	(71,132)	(78,125)	(71,625)	(75,286)
Net cash used in financing activities	<u>3,015,323</u>	<u>(317,278)</u>	<u>2,638,986</u>	<u>(592,159)</u>
Effect of exchange rate changes on cash	(63,614)	21,350	(45,074)	26,237
Decrease in cash and cash equivalents	100,483	99,653	145,322	7,266
Cash and cash equivalents at beginning of period	<u>1,182,392</u>	<u>393,111</u>	<u>1,137,553</u>	<u>485,498</u>
Cash and cash equivalents at end of period	<u><u>1,282,875</u></u>	<u><u>492,764</u></u>	<u><u>1,282,875</u></u>	<u><u>492,764</u></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 more recently in Mexico, Dominican Republic, Venezuela, Guatemala and India (collectively the “Company”) comprise the production of crude steel and related long rolled products, drawn products and long specialty products. The Company produces steel based on the mini-mill concept, whereby steel is produced in electric arc furnaces from scrap and pig iron acquired mainly in the region where each mill operates. Gerdau also operates plants which produce steel from iron ore in blast furnaces and through the direct reduction process.

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

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 legal financial statements. In accordance with Brazilian Securities Commission (CVM) rules, the Company has started to present its consolidated financial statements under IFRS (International Financial Reporting Standards) beginning the third quarter of 2007. The consolidated financial statements under IFRS are prepared in Brazilian reais.

The condensed consolidated financial information as of and for the three-month and six-month periods ended June 30, 2008 and 2007 are 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, 2008 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, 2007, except for the recognition of a qualifying cash flow hedge (Note 9), 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 accounting principles generally accepted in the United States of America.

2.2 Recently issued accounting standards

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) “*Business Combinations*” (“SFAS 141R”). SFAS 141R replaces FASB Statement No. 141, “*Business Combinations*,” (“SFAS 141”). SFAS 141R establishes the requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquired and the goodwill acquired. SFAS 141R also establishes disclosure requirements for business combinations. SFAS 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. For business combinations in which the acquisition date was before the effective date of this Statement, the acquirer shall apply the requirements of Statement 109, as amended by this Statement, prospectively. That is,

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

the acquirer shall not adjust the accounting for prior business combinations for previously recognized changes in acquired tax uncertainties or previously recognized changes in the valuation allowance for acquired deferred tax assets. However, after the effective date of this Statement. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 141R.

In December 2007, the FASB issued SFAS No. 160 *“Non-controlling Interests in Consolidated Financial Statements — an amendment to ARB No. 51”* (“SFAS 160”). SFAS 160 establishes accounting and reporting for minority interests, now termed “non-controlling interests”. SFAS 160 requires non-controlling interests to be presented as a separate component of equity and requires the amount of net income attributable to the parent and to the non-controlling interest to be separately identified on the consolidated statement of earnings. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company is evaluating the potential impact on its consolidated financial statements upon adoption of SFAS 160.

In March 2008, the FASB issued SFAS No. 161, *“Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133”* (Statement 161). SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 has been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is evaluating the potential impact on its consolidated statements upon adoption of Statement 161.

In April 2008, the FASB issued FSP 142-3, *“Determination of the Useful Life of Intangible Assets”*, (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *“Goodwill and Other Intangible Assets”*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is evaluating the potential impact of FSP 142-3 on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162 *“The Hierarchy of Generally Accepted Accounting Principles”*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The Company does not expect to have any significant impact of adopting this SFAS.

In May 2008, the FASB issued SFAS No. 163 *“Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60”*. SFAS 163 clarifies how FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company does not expect to have any impact of adopting this SFAS.

2.3 Adoption of new accounting standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157 *“Fair Value Measurements”* (“SFAS 157”). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007, and the Company has adopted the standard for those assets and liabilities as of January 1, 2008. The adoption of SFAS 157 did not materially impact the Company balance sheet, statement of income, or cash flow. The Company is now required to provide additional disclosures as a part of its consolidated financial statements.

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

In February 2008, the FASB issued Staff Position (“FSP”) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on its consolidated balance sheets and statements of income.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a three – tier fair value hierarchy which prioritizes the inputs in measuring fair value requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices (unadjusted) for similar assets or liabilities; quoted prices (unadjusted) in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of June 30, 2008, the Company held certain assets that are required to be measured at fair value on a recurring basis. These assets included investments in public and private securities and derivative instruments.

The public securities refer primarily to National Treasury Notes – “NTN” issued by the Brazilian Government and stocks that were classified as Level 1. The private securities refer primarily to fixed-income investments (Bank Deposit Certificate – “CDB” and Interbank Deposit – “DI”) and were classified as Level 2. The Company’s derivative instruments consist of interest rate swaps and collar contracts which are traded on a public exchange. See Note 9 for further information on the Company’s derivative instruments and hedging activities. The fair values of the derivatives were determined based on inputs that are readily available in public markets or derived from information available in publicly quoted markets. Therefore, the Company utilized level 2 inputs to measure the fair market value of these derivatives. The Company utilized a standard pricing model based on inputs that were either readily available in public markets, derived from information available in publicly quoted markets, or quoted by counterparties to these contracts to determine the value of the derivatives. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.

The Company also held auction rate securities instruments with a fair market value of \$54.2 million. Over the past several months, auctions for certain auction rate securities failed auction because sell orders have exceeded buy orders. As a result of these failed auctions or future failed auctions, the Company may not be able to liquidate these securities until a future auction is successful, the issuer redeems the outstanding securities or the securities mature. Although it is the Company’s intention to sell these investments when liquidity returns to the market for these securities, during the three months ended June 30, 2008, the Company reclassified the investments from a current asset to a non-current asset. Due to the lack of availability of observable market quotes on the Company’s investment portfolio of auction rate securities, the Company utilizes valuation models including those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. As a result of this analysis of other-than-temporary impairment factors, the Company recorded a charge in the financial expenses account to write down these investments by \$17.0 million and \$39.7 million for the three and six months ended June 30, 2008. These securities will be analyzed each reporting period for

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

possible further other-than-temporary impairment factors and appropriate balance sheet classifications. Therefore, the Company utilized level 3 inputs to measure the fair market value of these investments.

The Company's financial assets and liabilities measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at June 30, 2008, were as follows:

	Fair Value Measurements at Reporting Date Using			
	June 30, 2008	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Short-term investments				
Trading	2,152,298	841,834	1,310,464	-
Available for sale	55,419	55,419	-	-
Derivatives assets	41,224	-	41,224	-
Long-term investments				
Available for sale	54,220	-	-	54,220
Liabilities				
Derivatives liabilities	7,789	-	7,789	-
Unrecognized Put options				
Sidenor (See Note 9)	279,967	-	-	279,967
PCS (See Note 9)	68,839	-	-	68,839

The table below provides a summary of changes in fair value for the level 3 assets:

Balance as of December 31, 2007	360,767
(-) Writedown of investments - Available for Sale	(39,671)
(-) Sales of short-term investments	(700)
(+) Additions, net	82,630
Balance as of June 30, 2008	<u>403,026</u>
Balance as of March 31, 2008	431,972
(-) Writedown of investments - Available for Sale	(17,004)
(-) Sales of short-term investments	(700)
(-) Decrease in Put Options	(11,242)
Balance as of June 30, 2008	<u>403,026</u>

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard.

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, 2008, the Company's parent, Metalúrgica Gerdau S.A. ("MG", collectively with its subsidiaries and affiliates, the "Conglomerate") owned 45.15% (December 31, 2007 and June 30, 2007 – 44.86% and 45.15% respectively) of the total capital of the Company. MG's share ownership consisted of 76.45% (December 31, 2007 and June 30, 2007 – 74.89% and 75.73% respectively) of the Company's voting common shares and 28.42% (December 31, 2007 and June 30, 2007 – 28.71% and 28.38% respectively) of its non-voting preferred shares.

2.6 Stock Based Compensation Plans

Gerdau S.A. and Gerdau Ameristeel Corp ("Gerdau Ameristeel") and its subsidiaries 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.

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

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

Gerdau Plan

The Extraordinary Stockholders' General Meeting of Gerdau held on April 30, 2003 decided, based on a plan approved by an Annual Stockholders' meeting and up to the limit of authorized capital, to grant options to purchase shares to management, employees or individuals who render services to the Company or to entities under its control, and approved the creation of the "Long Term Incentive Program". Under the plan, the Board of Directors may grant options to purchase shares at an exercise price established by the Board of Directors and that can be exercised after a vesting period and up to 5 years after vested.

During the three-month and six-month periods ended June 30, 2008, the Company recognized \$987 and \$2,074, respectively (June 30, 2007 - \$639 and \$1,240, respectively) of stock compensation costs related to the options issued during 2007. At June 30, 2008, the remaining unrecognized compensation cost related to these unvested options was approximately \$15,353 (June 30, 2007 - \$9,796) and the weighted-average period of time over which this cost will be recognized is 3.21 years (June 30, 2007 - 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 the Company's senior management with bonuses based on the achievement of return on capital invested targets. Bonuses which have been earned are awarded after the end of the year in the form of cash, stock appreciation rights ("SARs"), and/or options. The portion of any bonus which is payable in cash is to be paid in the form of phantom stock. The number of shares of phantom stock awarded to a participant is determined by dividing the cash bonus amount by the fair market value of a Common Share at the date the award of phantom stock is made. 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 or SARs awarded to a participant is determined by dividing the non-cash amount of the bonus by the fair market value of the option or SAR at the date the award of the options or SARs is made. The value of the options or SARs is determined by the Human Resources Committee of the Company'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 \$8.3 million was earned by participants in 2007 and was granted 44% in SARs, 28% in options and 28% in phantom stock. On February 28, 2008, the Company issued 379,564 options, under this plan. These awards are being accrued over the vesting period.

The 2006 Stock Appreciation Rights Plan was designed to attract, retain, and motivate participating employees of the Company through awards of SARs. The SARs vest 25% on each of the first four anniversaries of the date of the award. SARs with a fair market value of approximately \$0.3 million were provided to certain participants in 2008 under this plan.

During the six months ended June 30, 2008 and 2007, the compensation costs recognized by the Company for options issued during 2007 and 2008 were insignificant. At June 30, 2008, the remaining unrecognized compensation cost related to all unvested options was approximately \$2.2 million and the weighted-average period of time over which this cost will be recognized is 3.4 years.

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

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 Gerdaul S.A. and of Gerdaul Ameristeel Corp., as appropriate.

Assumptions for options granted during the six-month period ended June 30, 2008

	<u>Gerdaul S.A.</u>	<u>Gerdaul Ameristeel Corp</u>
Expected dividend yield:	2.81%	3.08%
Expected stock price volatility:	37.77%	49.10%
Risk-free rate of return:	14.04%	3.01%
Expected life:	4.89 years	6.25 years

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

	<u>Gerdaul S.A.</u>	<u>Gerdaul 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:	4.90 years	6.25 years

Summary of the Gerdaul Plan and of the Gerdaul Ameristeel plans

A summary of the Gerdaul Plan is as follows:

<u>Gerdaul S.A.Plans</u>	<u>Six-month period ended June 30, 2008</u>	
	<u>Number of shares</u>	<u>Weighted-average exercise price US\$</u>
Outstanding at December 31, 2007 (*)	9,010,419	5.42
Granted	1,170,958	16.45
Forfeited	(138,906)	8.27
Exercised	(2,606,579)	2.41
Outstanding at June 30, 2008	<u>7,435,892</u>	<u>6.31</u>
Options exercisable	<u>544,216</u>	<u>5.89</u>

(*) Considering retroactive effect to the stock bonus described in Note 7.

	US\$
Proceeds from stock options exercised	5,747
Intrinsic value of stock options exercised	34,144

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

A summary of the Gerdau Ameristeel plans is as follows:

Gerdau Ameristeel Plans	Six-month period ended June 30, 2008	
	Number of shares	Weighted-average exercise price US\$
Outstanding at December 31, 2007	1,287,669	5.92
Granted	385,556	15.86
Exercised	(288,188)	3.89
Forfeited	(13,630)	13.96
Expired	(12,000)	21.89
Outstanding at June 30, 2008 (a)	1,359,407	8.94
Options exercisable	643,394	4.08

(a) At June 30, 2008, the weighted-average remaining contractual life of options outstanding and exercisable were 6.77 years and 1.98 years, respectively.

At June 30, 2008 and 2007 the aggregate intrinsic value of options outstanding was \$14.1 million and \$12.2 million, respectively. At June 30, 2008 and 2007, the aggregate intrinsic value of options exercisable was \$9.8 million and \$9.7 million, 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 three months ended June 30, 2008 was \$6.02 (June 30, 2007 was \$4.08).

Cash proceeds, tax benefits and intrinsic value related to total stock options exercised during the three months ended June 30, 2008 and 2007 are provided in the following table:

	2008	2007
Proceeds from stock options exercised	1,124	617
Tax benefit related to stock options exercised	1,133	989
Intrinsic value of stock options exercised	4,439	3,261
Fair value of shares vested	12,417	15,362

For the six months ended June 30, 2008 and 2007 the Company recorded \$16.6 million and \$18.0 million, 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 operational subsidiaries, as follows:

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

	Percentage interest (%)	
	June 30, 2008	June 30, 2007
Aceros Cox S.A. (Chile)	98	98
Gerdau Ameristeel Corporation (Canada) and its subsidiaries:	65	65
Ameristeel Bright Bar Inc. (USA)	65	65
Chaparral Steel Company (USA) (See Note 2.8.f)	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)	55	36
Gerdau Açominas S.A. (Brazil)	92	89
Gerdau Aços Especiais S.A. (Brazil)	92	89
Gerdau Aços Longos S.A. (Brazil)	92	89
Gerdau América Latina Participações S.A. (Brazil)	89	89
Gerdau Aza S.A. (Chile)	98	98
Gerdau Comercial de Aços S.A. (Brazil)	92	89
Díaco S.A. (Colombia) (See Note 2.8.a)	95	57
Gerdau GTL Mexico, S.A. de C.V. (Mexico) and its subsidiaries	100	100
Siderurgica Tultitlan S.A. de C.V. (Mexico)	100	100
Ferrotultitlán, S.A. de C.V. (Mexico)	100	100
Arrendadora Valle de Mexico, S.A. de C.V. (Mexico)	100	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
Gerdau Macsteel Holding Inc Delaware	92	-
Maranhão Gusa S.A. – Margusa (Brazil)	-	89
Aplema Comércio de Produtos Agroflorestais e Empreendimentos Ltda. (Brazil)	92	-
Paraopeba - Fundo de Investimento Renda Fixa (Brazil)	93	97
Seiva S.A. – Florestas e Indústrias (Brazil)	97	97
Sipar Aceros S.A. (Argentina)	90	72
Sidelpa S.A. (Colombia)	95	95
Corporación Sidenor S.A. (Spain) and its subsidiaries*	40	40
Sidenor Industrial S.L. (Spain)	40	40
Forjanor S.L. (Spain)	40	40
GSB Aceros S.L. (Spain)	-	40
Aços Villares S.A. (Brazil)	23	23
Empresa Siderurgica del Peru S.A.A. – “Siderperu” (Peru)	83	83
Siderurgica Zuliana C.A. (Venezuela)	100	100

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

The consolidated financial statements include all the companies in which the Company has a controlling financial interest through direct or indirect ownership of a majority voting interest. The consolidated financial statements include, in addition to the operational companies presented in the table above, all the other companies that meet the criteria for consolidation under US GAAP, which consist of holding companies which invest in the operating companies and carry out financing transactions.

All intercompany balances and transactions have been eliminated on consolidation.

2.8 Acquisitions

2.8.1 Acquisitions of companies (subsidiaries and jointly-owned subsidiaries)

a) Diaco S.A.

On January 14, 2008, the Company acquired from minority shareholders an additional interest of 40.2% in Diaco S.A.'s capital for \$107.2 million. At the end of this acquisition, the Company's ownership percentage came to hold, indirectly, 95.4% of the Diaco S.A.'s capital.

b) Century Steel, Inc.

On February 12, 2008, the Company, through its subsidiary Pacific Coast Steel (PCS), announced the acquisition of Century Steel, Inc.; Century Steel Holdings, Inc. d/b/a Century Reinforcing, Inc.; Calico Construction Supply, LLC; Century Steel Inc., (Utah); and Century Properties Henderson 18, LLC (collectively referred to as "CSI"), a rebar fabrication and structural steels company specialized in manufacturing and installing rebar fabrication and structural steel products for \$148.5 million (\$121.5 million had already been paid) and as a result of the acquisition the Company recorded a goodwill of \$79.1 million. CSI is located in Las Vegas in the state of Nevada State and has business in the states of Nevada, California, Utah, and New Mexico. The acquisition was concluded on April 1, 2008 and at the same time the subsidiary Gerdau Ameristeel paid \$82 million to increase its equity interest in PCS to approximately 84%. As a result of this increase in the equity interest of PCS the Company recorded goodwill of \$49.0 million.

The Company recorded goodwill related to these acquisitions due to the following factors:

- the CSI acquisition provided the Company with and expanded geographic presence in the western United States,
- an increased presence in the specialized fabricated rebar installation market,
- the Company believes that it will be able to successfully integrate the business operations of CSI and realize synergies associated with the acquisition.

c) Cleary Holdings Corp.

On February 21, 2008, the Company signed a purchase agreement for the acquisition of 50.9% of Cleary Holdings Corp., a controlling company of production units of coking coal and coking reserves in Colombia with a current production capacity of 1.0 million coking coal tones per year and the coking reserves estimated in 20 million tones. The amount to be disbursed for this acquisition is \$59 million and it is subject to the Colombian Regulatory Agencies' approval.

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

On February 27, 2008, the Company concluded the acquisition of 49% of the Corsa Controladora, S.A. de C.V. (holding)'s capital, which holds 100% of the Aceros Corsa, S.A. de C.V.'s capital, which also controls two steel distributors. Aceros Corsa, situated in the Tlalnepantla City, metropolitan region of Mexico City, is a mini-mill that produces long steel (light commercial bars) with an installed capacity of 150 thousand tones of crude steel and 300 thousand tones of rolled products per year. The amount disbursed in this acquisition is \$110.7 million. The Company and the Corsa Controladora, S.A.'s shareholders established also a joint venture denominated Estructurales Corsa S.A.P.I. de C.V. with the purpose of implementing a project to produce structural bars in Mexico. The new plant will have an installed capacity of 1.0 million tones of crude steel and 700 thousand tones of rolled products per year and will involve an estimated investment of \$400 million. The plant will start to operate in 2010. By June 30, 2008 the amount disbursed for this joint venture totaled \$14.8 million. This investment is recorded under the Equity accounting method.

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

e) SJK Steel Plant Limited

On April 2, 2008 the Company through its subsidiary Corporación Sidenor acquired the first portion set forth in the joint venture contract for an investment in Tadipatri, India, which was signed on June 22, 2007. This portion, along with the second acquisition installment made on May 27, 2008 represented an acquisition of 45.17% interest in SJK Steel Plant Limited, which is a steel producer with two LD converters, a continuous casting machine, and pig iron production facilities. The contract establishes a joint ownership and the total amount of the investment is \$72.6 million. The Company has already paid \$49.8 million. This investment is recorded under the equity method.

f) Corporación Centroamericana del Acero S.A.

On April 21, 2008 the Company made a strategic alliance with the controlling shareholders of the holding company Corporación Centroamericana del Acero S.A., which holds steelmaking assets in Guatemala and Honduras and distribution in El Salvador, Nicaragua, and Belize. The disbursement in this transaction was \$180 million and resulted in the acquisition of 30% interest in Corporación Centroamericana del Acero S.A. This investment is recorded under the equity method.

The steelmaking assets include a melt shop with an installed capacity of 500,000 tones of crude steel and rolling mills with an annual capacity of 690,000 tones for producing rebars, profiles, seamed tubes and flat bars, as well as drawn products and downstream operations to produce meshes, galvanized, annealed, and barbed wires, nails and metal roofs.

g) Gerdau MacSteel Inc. (Quanex Corporation)

On April 23, 2008, the Company completed the acquisition of 100% of MacSteel, Quanex Corporation's steel business. On November 19, 2007, the Company had signed a definite agreement to acquire Quanex Corporation, which, through its steel business MacSteel, is the second largest producer of specialty steels (Special Bar Quality – SBQ) in the United States and operates three mini mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. MacSteel also operates six downstream operations located in the states of Michigan (two), Ohio, Indiana (two), and Wisconsin. MacSteel has an annual installed capacity of 1.2 million tones of steel and 1.1 million tones of rolled products.

The acquisition did not include Quanex's Building Products business, which is not related to the steel business. Quanex announced the spin-off of this business when the acquisition proposal was finalized.

The disbursement in this transaction was \$1.47 billion, plus the assumption of certain debts and liabilities of the acquired company.

The following table summarizes the preliminary fair value of assets acquired and liabilities assumed for MacSteel.

Current assets	513,186
Property, plant and equipment	514,797
Other long-term assets	240,538
Goodwill	952,726
Current liabilities	(523,663)
Long-term liabilities	(229,070)
Net fair market value	<u>1,468,514</u>
Total consideration allocated	<u>1,468,514</u>

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

In connection with the acquisition, the Company recognized a significant amount of goodwill due to the following factors:

- the rapid consolidation that has taken place in the global steel industry has resulted in acquisition valuations increasing dramatically,
- the Company believes that it will be able to successfully integrate the business operations of Gerdau GTL México and realize synergies associated with the acquisition.

b) Multisteel Business Holdings Corp.

In May 2008, the Company concluded the fair value assessment for all assets and liabilities of Multisteel Business Holdings Corp..

This investment is accounted under the equity method and therefore the allocation of the fair value of the assets and liabilities of the acquired company is not consolidated and only has effect through a reclassification from the goodwill originally recognized to the investment account. As the goodwill and the investment for investments accounted under the equity method are presented in the same account there is no impact in the balance sheet related to this reclassification. Furthermore, the amount derived from the amortization of the fair value allocated will be recognized in the Company's income statement under the account "Equity in earnings of unconsolidated companies, net".

c) Siderúrgica Zuliana C.A.

In June 2008, the Company concluded the fair value assessment for all assets and liabilities of Siderúrgica Zuliana C.A., and allocated part of the initially recognized goodwill in the amount of \$4,188.

The following table presents the estimated fair value of the assets and liabilities of Siderúrgica Zuliana C.A. on the acquisition date:

	Preliminary allocation recorded as of June 30, 2007	Final allocation
Net assets (liabilities) acquired		
Current assets	12,296	12,296
Property, plant and equipment	27,960	34,306
Non-current assets	1,010	1,010
Goodwill	58,293	54,105
Current liabilities	(4,710)	(4,710)
Non-current liabilities	(2,350)	(4,508)
	<u>92,499</u>	<u>92,499</u>
 Purchase price consideration, at fair value	 92,499	 92,499

In connection with the acquisition, the Company recognized a significant amount of goodwill due to the following factors:

- the rapid consolidation that has taken place in the global steel industry has resulted in acquisition valuations increasing dramatically,
- the Company believes that it will be able to successfully integrate the business operations of Siderúrgica Zuliana and realize synergies associated with the acquisition.

d) Chaparral Steel Company (“Chaparral”)

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

On September 14, 2007, the Company completed its acquisition of Chaparral Steel Company (“Chaparral”), a leading producer of structural steel products in North America and also a major producer of steel bar products. Chaparral operates two mini-mills, one located in Midlothian, Texas, and the other located in Petersburg, Virginia. The purchase price for the shares of Chaparral was \$4.2 billion in cash, plus the assumption of certain liabilities of the acquired company. In connection with the acquisition, the Company recognized a significant amount of goodwill due to the following factors:

- the rapid consolidation that has taken place in the global steel industry has resulted in acquisition valuations increasing dramatically,
- the Chaparral acquisition provided the Company an expanded geographic presence further west in the United States,
- existing installed production capacity and labor force of the mills,
- an increased presence in the strong structural steel market – this acquisition increased the product mix to add large structural products and pilings to the existing products offerings.
- the Company believes that it will be able to successfully integrate the business operations of Chaparral and realize synergies associated with the acquisition.

During the second quarter of 2008, the Company revised the purchase price allocation as a result of updated information regarding the fair values of certain assets and liabilities, resulting in a net increase of goodwill of \$2.0 million. The following table summarizes the revised fair value of assets acquired and liabilities assumed for Chaparral.

Current assets	1,071,886
Property, plant and equipment	703,811
Intangible assets	605,671
Other long-term assets	11,519
Goodwill	2,776,903
Current liabilities	(683,472)
Long-term liabilities	(422,060)
Net fair market value	<u>4,064,258</u>
Total consideration allocated	<u>4,064,258</u>

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

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

The purchased intangibles and goodwill are not deductible for tax purposes. However, purchase accounting requires the establishment of deferred tax liabilities on the fair value increments related to intangible assets that will be recognized as a tax benefit in future periods as the assets are amortized. As allowed under SFAS 141, the Company has up to one year from the acquisition to adjust the valuations of goodwill and intangible assets.

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

The following unaudited pro forma consolidated results of operations assume the acquisition of Chaparral was completed at the beginning of the period shown below. Pro forma data may not be indicative of the results that would have been obtained had the acquisition actually occurred at the beginning of the period presented, or of results which may occur in the future.

	Three Months Ended	Six Months Ended
	June 30, 2007	June 30, 2007
Net Sales	4,279,075	8,188,152
Net Income	417,359	869,745
Earnings per share - Basic	0.63	1.31
Earnings per share - Diluted	0.62	1.30

The unaudited pro forma information presented above reflects the results of operations for three and six months ended June 30, 2007 as though the acquisition had been completed at the beginning of each period. The fair value adjustment to inventory (\$22 million net of tax) has been recorded as a reduction of net income in each period.

Due to the difference in fiscal year ends of each company, the pro forma information for the three months ended June 30, 2007 has been prepared by combining (i) the Company's consolidated statement of income for the three months ended June 30, 2007 and (ii) Chaparral's consolidated statement of income for the three months ended May 31, 2007.

The pro forma information for the six months ended June 30, 2007 has been prepared by combining (i) the Company's consolidated statement of income for the six months ended June 30, 2007 and (ii) Chaparral's consolidated statement of income for the six months ended May 31, 2007, which was prepared by combining Chaparral's consolidated statement of income for the three months ended February 28, 2007, and the three months ended May 31, 2007.

2.9 Derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting are recognized on the balance sheet at fair value with unrealized gains and losses recognized in the statement of income.

To qualify as a hedge, the derivative must be (i) designated as a hedge of a specific financial asset or liability at the inception of the contract, (ii) effective at reducing the risk associated with the exposure to be hedged, and (iii) highly correlated with respect to changes either in its fair value in relation to the fair value of the item being hedged or with respect to changes in the cash flows, both at inception and over the life of the contract.

As required by SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133") the Company assess both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting the changes in cash flows of the hedged item.

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

3 Inventories

	<u>June 30,</u>		<u>December</u>
	<u>2008</u>	<u>2007</u>	<u>31, 2007</u>
Finished products	1,736,419	1,035,905	1,263,252
Work in process	990,607	601,530	762,634
Raw materials	1,070,471	583,968	722,309
Packaging and maintenance supplies	565,031	340,574	498,058
Advances to suppliers of materials	338,466	117,846	170,352
	<u>4,700,994</u>	<u>2,679,823</u>	<u>3,416,605</u>

4 Property, plant and equipment, net

	<u>June 30,</u>		<u>December</u>
	<u>2008</u>	<u>2007</u>	<u>31, 2007</u>
Buildings and improvements	2,438,030	1,796,413	2,222,619
Machinery and equipment	9,497,310	5,933,022	7,925,285
Vehicles	82,638	56,545	70,345
Furniture and fixtures	108,736	83,066	89,082
Other	641,111	432,711	531,918
	<u>12,767,825</u>	<u>8,301,757</u>	<u>10,839,249</u>
Less: Accumulated depreciation	<u>(4,903,638)</u>	<u>(3,556,693)</u>	<u>(4,115,228)</u>
	7,864,187	4,745,064	6,724,021
Land	549,881	427,791	503,882
Construction in progress	1,557,802	1,876,091	1,391,811
Total	<u>9,971,870</u>	<u>7,048,946</u>	<u>8,619,714</u>

As of June 30, 2008, machinery and equipment with a net book value of \$1,221,535 (\$971,068 on June 30, 2007 and \$1,055,641 on December 2007) 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.

Long-term debt

Long-term debt consisted of the following:

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

	Weighted average Annual Interest Rate % at June 30, 2008	June 30,		December 31, 2007
		2008	2007	
Long-term debt, excluding debentures, denominated in Brazilian reais				
Working capital	10.26%	63,001	53,120	59,279
Financing for investments	11.77%	461,942	84,253	420,214
Financing for machinery	8.76%	889,451	650,394	886,297
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\$)	4.14%	1,193	37,884	1,183
Guaranteed Perpetual Senior Securities (US\$)	9.43%	600,000	600,000	600,000
Financing for machinery and others (US\$)	5.10%	822,113	868,310	892,266
Export Receivables Notes by Gerdau Açominas (US\$)		-	185,658	-
Advances on exports (US\$)	5.23%	253,102	357,475	259,892
Financing for investments (US\$)		-	11,316	-
(b) Long-term debt of Sipar Aceros, Diaco, Sidelpa, Gerdau Aza S.A., Siderperú, Siderúrgica Zuliana, Gerdau GTL Mexico, Gerdau Macsteel and GTL Trade Finance Inc. (Ten-Year Bond)				
Financing for investments (US\$)	4.59%	1,060,522	-	162,050
Ten-Year Bond (US\$)	7.25%	1,500,000	-	1,000,000
Working capital (US\$)		-	112,490	-
Working capital (Chilean pesos)	5.61%	2,693	3,202	3,112
Working capital (Colombian Pesos)	9.05%	440	1,291	703
(c) Long-term debt of Gerdau Ameristeel				
Senior notes, net of original issue discount (US\$)	10.38%	403,775	400,228	400,819
Term Loan Facility (US\$)	3.59%	2,600,000	-	2,600,000
Senior Secured Credit Facility (Cdn\$)		-	-	-
Industrial Revenue Bonds (US\$)	3.77% to 6.38%	50,400	54,600	54,600
Other		23,194	264	13
(d) Long-term debt of Corporación Sidenor				
Working capital (Euros)	5.53%	<u>479,753</u>	<u>263,453</u>	<u>368,717</u>
		9,211,579	3,683,938	7,709,145
Less: current portion		<u>(1,285,920)</u>	<u>(459,507)</u>	<u>(655,229)</u>
Long-term debt, excluding debentures, less current portion		<u><u>7,925,659</u></u>	<u><u>3,224,431</u></u>	<u><u>7,053,916</u></u>

Long-term debt matures in the following years:

2009	469,639
2010	923,809
2011	1,681,826
2012	1,752,633
After 2012	<u>3,097,752</u>
	<u><u>7,925,659</u></u>

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

Long-term debt denominated in Brazilian *reais* is indexed for inflation using the TJLP (Taxa de Juros de Longo Prazo – “Long term interest rate”) rate set by the Government on a quarterly basis, or based on IGPM (Índice Geral de Preços – Mercado – “General Index Price – Market”).

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

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

The debt agreements entered into by the Company’s Brazilian subsidiaries contain covenants, which are described below, that require the maintenance of certain ratios, as calculated in accordance with the Company’s

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

financial statements prepared in accordance with IFRS. The covenants include financial covenants including ratios on liquidity, total debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in the respective debt agreements), debt service coverage and interest coverage, amongst others. At June 30, 2008, the Company was in compliance with all of its debt covenants.

Guaranteed Perpetual Senior Securities

On September 15, 2005, Gerdau S.A. concluded a private placement of the \$600,000 with 9.75% p.a. of interest bearing Guaranteed Perpetual Senior Securities. Such bonds are guaranteed by the following operating companies of Gerdau based in Brazil: Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The bonds do not have a stated maturity date but should be redeemed by Gerdau S.A. in the event of certain specified events of default (as defined in the terms of the bonds) which are not fully under the control of the Company. The Company has a call option to redeem these bonds at any moment after 5 years of placement (September 2010). Interest payments are due on a quarterly basis, and each quarterly payment date is also a call date after September 2010.

Covenants

As a way of monitoring the financial condition of the Company, the banks involved in certain of the financing agreements use restrictive covenants, as described below:

- I) Consolidated Interest Coverage Ratio - measures the debt service payment capacity in relation to EBITDA (Net Income before Interest, Taxes, Depreciation and Amortization)
- II) Consolidated Leverage Ratio - measures the debt coverage capacity in relation to EBITDA (Net Income before Interest, Taxes, Depreciation and Amortization).
- III) Required Minimum Net Worth - measures the minimum net worth required in financing agreements.
- IV) Current Ratio (current liquidity ratio) - measures the capacity to pay current liabilities.

All the covenants mentioned above are calculated based on the Consolidated Financial Statements in IFRS of Gerdau S.A., except for item IV, which refers to Metalúrgica Gerdau S.A., and have been complied with. Pursuant to the agreements, the penalty for non-compliance with such covenants is the possibility of a default statement by the banks and acceleration of maturity of loans.

(b) Sipar Aceros, Diaco, Sidelpa, Gerdau AZA, Siderperú, Siderúrgica Zuliana, Gerdau GTL Mexico and GTL Trade Finance Inc.

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

The subsidiary Siderperú has obtained a financing for working capital of \$150,067, maturing in 2014 with a variable rate of Libor + 0.9% p.a.. Such proceeds were used to pay out the outstanding debt with suppliers and credits acquired by the Company by the time of the acquisition of this subsidiary.

Ten-Years Bonds

On October 22, 2007, the subsidiary GTL Trade Finance Inc. concluded the placement of Ten-Years Bonds in the amount of \$1 billion. Such Bonds, which mature on October 20, 2017, are subject to interest of 7.25% p.a., payable semi-annually in the months of April and October, beginning April 2008, and guaranteed by Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A., and Gerdau Comercial de Aços S.A. In May 2008 the Company concluded the reopening of the Bond with a maturity in 2017, through the subsidiary GTL Trade Finance Inc. in the amount of \$500.0 million and a yield of 6.875% p.a.. The new issuance will be incorporated into the issuance made in October 2007 and will be subject to interest of 7.25%

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

p.a., which will be paid every six months (in April and October). These funds will be used to repay the Bridge Loan of \$1 billion that was taken by this subsidiary on April 16, 2008. The bonds are senior unsecured obligations of the Issuer, ranking equal in right of payment with all of the Issuer's other existing and future senior unsecured debt. The guarantees of the bond will rank *pari passu* with all unsecured and unsubordinated obligations of each of the Guarantors.

The bonds and the guarantees of the bonds were not registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or under any state securities law. Therefore, the bonds were not offered or sold within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale was qualified for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, the bonds were offered and sold to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and to non U.S. people outside the United States in compliance with Regulation S under the Securities Act.

(c) Long-term Debt of Gerdau Ameristeel

On June 27, 2003, Gerdau Ameristeel refinanced its debt by issuing \$405.0 million aggregate principal 10 3/8% Senior Notes. The notes mature July 15, 2011 and were issued at 98% of face value. Gerdau Ameristeel amortizes the bond discount using the straight line method, which is not materially different from the effective interest method. Gerdau Ameristeel can call these Senior Notes at any time at a redemption price ranging from 105 3/8% to 100%, depending on the year the call is made. As a result of the Company having hedged a portion of its 10 3/8% Senior Notes and then subsequently terminating these hedges, the carrying value of those notes was adjusted to reflect the final fair value of the derivatives as of the time they were terminated. Gerdau Ameristeel amortizes this final fair value using the straight line method which approximates the effective yield method.

On October 31, 2005, Gerdau Ameristeel entered into a new Senior Secured Credit Facility, which provided commitments of up to \$650.0 million and expires on October 31, 2010. In June 2008, Gerdau Ameristeel increased the Senior Secured Credit Facility from \$650.0 million to \$950.0 million. The Company is in compliance with the terms of the facility at June 30, 2008. The borrowings under the Senior Secured Credit Facility are secured by the Company's inventory and accounts receivable. At both June 30, 2008 and December 31, 2007, there was nothing drawn against this facility based upon available collateral under the terms of the agreement. At June 30, 2008 and December 31, 2007, approximately \$804.9 million and \$583.0 million, respectively, was available under the Senior Secured Credit Facility, net of \$76.3 million and \$67.0 million, respectively of outstanding letters of credit.

Gerdau Ameristeel had \$50.4 million and \$54.6 million of industrial revenue bonds outstanding at June 30, 2008 and December 31, 2007, respectively. In April 2008, Gerdau Ameristeel repaid the \$4.2 million industrial revenue bond that was assumed with the acquisition of the Beaumont, Texas facility in November 2004. Approximately \$23.8 million of the bonds were issued by Gerdau Ameristeel US Inc., a wholly owned subsidiary of the Company, in prior years to construct facilities in Jackson, Tennessee. Gerdau Ameristeel assumed an industrial revenue bond in the amount of \$3.6 million with the acquisition of the Cartersville cold drawn facility in September 2002. The industrial revenue bonds mature in 2014 and 2017, respectively. The Jackson, Tennessee and Cartersville, Georgia bonds are secured by letters of credit issued under the Senior Secured Credit Facility. On May 3, 2007, Gerdau Ameristeel US Inc. entered into a new industrial revenue bond for the Jacksonville, Florida facility. The industrial revenue bond is for \$23.0 million and matures on May 1, 2037. The interest on this bond is 5.3% payable semi-annually. This bond is secured by a guarantee by the Company.

On September 14, 2007, the Gerdau Ameristeel entered into a \$2.75 billion Term Loan Facility to partially finance its acquisition of Chaparral of which \$150.0 million of the Term Loan has been repaid.

The Term Loan Facility has tranches maturing between 5 and 6 years from the closing date and bearing interest at LIBOR plus between 1.00% and 1.25%. The Term Loan Facility is not secured by the assets of Gerdau

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

Ameristeel or its subsidiaries. Gerdau S.A. and certain of its Brazilian affiliates have guaranteed the obligations of the borrowers. The Term Loan Facility includes financial covenants requiring Gerdau S.A. and its subsidiaries on a consolidated basis to satisfy maximum total debt to EBITDA and minimum EBITDA to interest expense tests, and the value of Gerdau S.A.'s and certain of its subsidiaries' receivables under certain off-take supply contracts to at all times exceed the principal amount of the outstanding term loans. The Term Loan Facility is unsecured but provides for a springing lien in the off-take supply contracts. The Term Loan Facility also contains customary covenants restricting the Company's ability, including the ability of certain of its subsidiaries, including Gerdau Ameristeel US Inc. and GNA Partners, GP, to incur additional liens on such entities' assets, enter into certain transactions with affiliates and enter into certain merger transactions. The Company is in compliance with the terms of the Term Loan Facility.

(d) Corporación Sidenor

In December, 2006, Corporación Sidenor obtained a loan in the amount of € 150,000 (\$236,742) to conclude the acquisition of GSB Aceros S.L. and in October, 2007, a loan in the amount of € 50,000 (\$78,914) to the acquisition of SJK Steel Co. These debts mature between 2009 and 2013.

Lines of credit

In October, 2005, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços obtained a pre-approved line of credit from BNDES for the purchase of machinery and related expenses for a total amount of \$565,362, bearing interest of TJLP+2.5% p.a. Amounts will be released as investments are made by the subsidiaries and they present to BNDES documentation supporting to the investments made. At June 30, 2008, \$429,376 was drawn against this facility. These contracts are guaranteed by INDAC (parent company of Metalúrgica Gerdau S.A.).

On May 27, 2008, Gerdau Aços Longos S.A. received a loan approval from BNDES in the total amount of \$341,361 for financing the construction of the Caçú/Barra dos Coqueiros hydroelectric complex with a grace period of 6 months after startup by October 2010. The amortization will take place from November 2010 to October 2024, subject to TJLP (long-term interest rate) + 1,46% p.a.. The contracts are guaranteed by Indac – Ind. Adm. e Comércio S.A. and contain restrictive covenants which must be met by Metalúrgica Gerdau S.A..

The Company announced the conclusion, on November 1, 2006, of a Senior Liquidity Facility. This facility amounts to \$400,000 and the borrower will be the subsidiary GTL Trade Finance Inc., with the guarantee of Gerdau S.A., and its subsidiaries Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau Comercial de Aços. The program has an availability period of 3 years, with 2 years for payment as from the date of each disbursement. The costs involve a facility fee amounting to 0.27% p.a. and interests, in the case disbursements are actually made, of Libor + 0.30% to 0.40% p.a.. At June 30, 2008, no amounts have been withdrawn under this facility.

Gerdau Açominas also has available the following lines of credit:

- \$267,000 from a consortium of banks 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, 2008, the total amount was drawn against this facility.
- \$69,000 from Export Development Canada, guaranteed by KFW Ipex Bank, maturing in 6 years, with 2 grace years and repayment in 4 years bearing interest of 7.22% p.a. At June 30, 2008, \$50,000 had been drawn on this facility.
- \$201,000 from BNP Paribas – France (50%) and from Industrial and Commercial Bank of China (50%), guaranteed by SINOSURE (China Export & Credit Insurance Corporation), maturing in 12

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

years, with 3 grace years and 9 years for repayment bearing interest of 6.97% p.a. At June 30, 2008, \$174,500 was drawn against this facility.

In March, 2007, the Company obtained an approval of a Commercial Loan with BNP Paribas, guaranteed by SINOSURE (China Export & Credit Insurance Corporation), in the total amount of \$50,000. This loan has been taken in order to finance 15% of the new coke plant, sinter plant and a new blast furnace for the Ouro Branco mill. At June 30, 2008, the total amount was drawn against this facility.

Gerdau AZA has available the following lines of credit:

- \$100,856 of lines for working capital, bearing interest of 6.96% p.a. At June 30, 2008, no amounts were withdrawn.

Gerdau Ameristeel has available the following lines of credit:

- \$75,000 of a credit facility with KfW to provide financing for capital expenditures, expiring on November 30, 2008 and is secured by equipment purchased with the financing. At June 30, 2008, \$15,400 was drawn against this facility.

In May 2008, the subsidiary Gerdau Macsteel US Inc. received a 3-year credit line from a bank syndicate led by Citibank N.A in the amount of \$500.0 million. As of June 30, 2008 \$400.0 million had been used and the principal will be paid in three installments: in the 24th month, in the 30th month, and in the 36th month. The interest rate was Libor + 1.25%. The funds were used to repay the loan obtained to purchase the company (Bridge Loan). The loan is guaranteed by the Gerdau Group companies.

Debentures

Debentures as of June 30, 2008 include five outstanding issuances of Gerdau and debentures issued by Aços Villares S.A., as follows:

	Issuance	Maturity	June, 30		December 31, 2007
			2008	2007	
Debentures, denominated in Brazilian reais					
Third series	1982	2011	141,984	64,834	93,700
Seventh series	1982	2012	22,067	83,054	86,155
Eighth series	1982	2013	171,875	161,023	145,634
Ninth series	1983	2014	19,415	74,651	142,317
Eleventh series	1990	2020	54,123	65,142	74,040
Aços Villares S.A.	2005	2010	194,302	159,529	173,899
			603,766	608,233	715,745
Less: Debentures held by consolidated companies eliminated in consolidation			(47,719)	(85,671)	(184,341)
Total			556,047	522,562	531,404
Less: current portion (presented under Other current liabilities in the consolidated balance sheet)			(82,407)	(1,394)	(21,524)
Total debentures – long-term			473,640	521,168	509,880

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

Debentures mature in the following years:

	<u>June 30</u>		<u>December 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
2009	44,758		87,071
2010	67,137	158,135	65,304
2011	97,423	60,146	93,700
2012	22,067	30,269	37,431
After 2012	242,255	272,618	226,374
	<u>473,640</u>	<u>521,168</u>	<u>509,880</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 11.17%, 11.89%, 11.82% as of June 30, 2008 and 2007 and December 31, 2007, respectively.

Debentures issued by Aços Villares S.A.

The debentures of Aços Villares S.A. are registered, single series, unsecured, and not convertible into shares. A total of 28,500 debentures were issued and placed on the market with a face value of \$6.28 totaling \$179,031. The debentures have a term of five years and mature on September 1st, 2010. They pay interest equivalent to 104.5% of the DI (interbank deposit) rate on a quarterly basis. The principal will be paid in eight equal, quarterly and consecutive installments, beginning on December 1, 2008.

6 Commitments and contingencies

The Company is party to claims with respect to certain taxes, civil and labor matters. Management believes, based in part on advice from legal counsel, that the provision for contingencies is sufficient to meet probable and reasonably estimable losses from unfavorable rulings, and that the ultimate resolution will not have a significant effect on the consolidated financial position as of June 30, 2008, although it may have a significant effect on future results of operations or cash flows.

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

<u>Claims</u>	<u>Contingencies</u>			<u>Judicial deposits</u>		
	<u>June</u>		<u>December</u>	<u>June</u>		<u>December</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
Tax	195,145	144,375	205,297	112,557	70,582	106,288
Labor	59,867	51,500	52,955	15,601	14,308	13,500
Other	6,841	11,885	7,074	13,481	7,084	6,523
	<u>261,853</u>	<u>207,760</u>	<u>265,326</u>	<u>141,639</u>	<u>91,974</u>	<u>126,311</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

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

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, 2008.

- Of the total provision, \$20,457 relates to amounts of State Value Added Tax (“Imposto sobre Circulação de Mercadorias e Serviços” – ICMS), the majority of which relating to credit rights. Most of the proceedings under judgment by the Finance Department of the States of Mato Grosso, Maranhão, Amazonas, Bahia, Rio de Janeiro and Minas Gerais, by the State Courts of Pernambuco e Minas Gerais e by the Federal Courts of Pernambuco. The contingencies were properly updated, as established by legislation. The reduction of the amount is due to the inclusion of debts in the Special Installment Payment Program for ICMS, established by Law No. 17247 of December 27, 2007, and Decrees No. 44695 of December 28, 2007 and No. 44704 of January 15, 2008, in the State of Minas Gerais.
- \$30,244 corresponds to lawsuits related to INSS in the lower and appellate courts of Minas Gerais, Rio de Janeiro, Espírito Santo, Pernambuco and Bahia. The consolidated balance refers to lawsuits related to SAT (Occupational Accident Insurance), as well as tax delinquency notices for INSS on outside services relating to the last 10 years for which the National Institute of Social Security understands that Gerdau Açominas S.A. is jointly liable. The assessments were maintained at the administrative level and Gerdau Açominas S.A. filed annulment actions with judicial deposits for the amount under discussion based on the understanding that the right to assess part of the charge has prescribed and that there is no joint liability.
- \$21,356 relates to the Emergency Capacity Charge (ECE) (“Encargo de Capacidade Emergencial” - ECE) and Extraordinary Tariff Adjustment (RTE) (“Recomposição Tarifária Extraordinária” - RTE) are charges required in the electricity bills of the industrial units of the Company. According to the Company, these charges are of a tax nature and, as such, are incompatible with the National Tax System set forth in the Federal Constitution. For this reason the constitutionality of these charges is being challenged in court. Lawsuits are in progress in the Federal Courts of Sao Paulo and Rio Grande do Sul, as well as in the Federal Regional Courts and the Superior Court of Justice. The Company has fully deposited in judicial the amounts of the charges under discussion.
- \$53,096 relates the reserve recorded by the subsidiary Gerdau Açominas S.A. is intended to cover amounts required by the Federal Revenue Service for Import Tax, IPI (Federal VAT) and applicable charges on transactions made under a drawback that was subsequently annulled by the Foreign Trade Operations Department (DECEX). The Company does not agree with the administrative decision that annulled the drawback and defends the legality of the transactions made. This issue is under litigation that currently awaits judgment in the Federal Supreme Court (STF).
- The reserve was recorded, considering the legal counsel’s and management’s opinion, for lawsuits assessed as probable loss, in an amount sufficient to cover expected losses.

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 a defendant in a tax collection action filed by the state of Minas Gerais demanding ICMS tax payments mainly on sales of products to commercial exporters. The updated amount of the action is \$31,724. The Company did not record any reserve for contingencies for such action since it believes that this tax payment is undue, because products for export are exempted from ICMS (State VAT).
- The Company is a defendant in debt foreclosures filed by the States of Minas Gerais and Pernambuco to demand ICMS credits arising mainly from exports of semi-finished processed products. Currently, the total amount demanded is \$28,859. The Company has not made any reserve for such claims since it believes that this tax is not applicable, the products do not fall under the definition of semi-finished processed products as established in federal complementary law and, therefore, are not subject to ICMS.

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

- On December 6, 2000, the Company has entered into Tax Debt Refinancing Program (Programa de Recuperação Fiscal – “REFIS”), paying the Employees' Profit Participation Program – “PIS” and the Tax for Social Security Financing – “COFINS” contributions in 60 installments, having paid the last one on May 31, 2005. The payment of all the installments for the remaining balance of \$13,197 of the REFIS Account was contested. Once the pending issues in the administrative process are solved with the REFIS Management Committee, the Company understands that the installments will become extinct.
- The Company and its subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A. e Gerdau Comercial de Aços S.A. have other lawsuits related to the Value-Added Tax on Sales and Services (ICMS) which are mostly related to credit rights and rate differences, and whose demands reach a total of \$78,957. An accounting provision was not made for these demands since they were considered of possible loss, but not probable, by our legal advisors.
- The Company and its subsidiaries Gerdau Aços Longos S.A. and Gerdau Açominas S.A., are parties to the lawsuits relating to Property Tax (IPTU), Import Taxes (II), and Excise Tax (IPI). The total amount of these lawsuits is \$36,679. No reserve has been recorded for these lawsuits since they were assessed as possible loss by the legal counsel.

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:

- The Company believes that the realization of certain contingent assets is possible. Among them is a court-order debt security issued in 1999 in the amount of \$16,697, arising from an ordinary lawsuit against the state of Rio de Janeiro for 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 Constitutional Amendment 30/00 (which granted the government a ten-year moratorium for payment of securities issued to cover court-order debts not related to food), the realization of this asset is not expected in 2008 and following years. For this reason, this asset is not recorded in the Financial Statements.
- Also, the Company and its subsidiary Gerdau Açominas S.A. expect to recover Excise Tax (IPI) premium credits. Gerdau S.A. has filed administrative requests for reimbursement, which are pending judgment. With regards to the subsidiary Gerdau Açominas S.A., the proceeding was judged unfavorably. Currently, the proceeding awaits judgment of the appeal filed by the subsidiary. The Company estimates the credits at \$205,102 (consolidated). Due to the uncertainty as to its realization, the credit is not recorded.

Labor contingencies

The Company and its subsidiaries are also a party to labor claims, which include indemnity claims for occupational accidents and diseases. None of these claims involve significant amounts and refer mainly to overtime pay, health hazard premium, and hazardous duty premium, among others.

Other contingencies

The Company is also defending in court civil proceedings arising from the normal course of its operations and has accrued \$6,840 for these claims. Escrow deposits related to these contingencies, at June 30, 2008, totaled to \$13,481.

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:

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

Antitrust proceeding involving the Company brought by two civil construction unions in the State of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE) and based on public hearings, the SDE was of the opinion that a cartel existed. This conclusion was also supported by an earlier opinion by the Secretariat for Economic Monitoring (SEAE). The proceeding was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment. However, the proceeding was suspended from May 2004 to August 16, 2005 due to a legal protection granted within a new lawsuit filed by Gerdau S.A. with the purpose of annulling the administrative proceeding grounded on formal irregularities found in its discovery. The annulment of the legal protection by the Federal Regional Court occurred as a result of appeals filed by CADE.

CADE, regardless of the request for submission of negative evidence of cartel made by Gerdau S.A., judged the merits of the administrative proceedings on September 23, 2005 and, by a majority of votes, fined the Company and other long steel producers an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes, for formation of a cartel. The content of this decision proved to be contradictory, forcing Gerdau to seek, at two different moments, clarifications through the Amendment of Judgment – a procedural instrument that does not seek to reexamine the merits of a decision, but rather provide an explanation for the “obscurity,” “contradiction” or “omission” contained in the decision. Both Amendments were judged, disclosed and provided, respectively, on March 29, 2006 and May 24, 2006. It is important to point out that there was no reexamination of the merits of the decision in these judgments, nor do the decisions in the fundamental principal of “Amendments” correspond to new convictions or judgments in a higher court.

Despite the CADE decision, the legal action filed by Gerdau S.A. follows its normal course and, at present, awaits judgment in the lower court. In the event the processual irregularities alleged by Gerdau are recognized by the court, the CADE decision may be annulled. Furthermore, to reverse the terms of the decision by CADE, Gerdau appealed to the Judiciary on July 26, 2006 by bringing a new ordinary suit that not only ratifies the terms of the first suit, but also points out the irregularities found during the course of the administrative proceeding with CADE. The Federal Judge in charge of analyzing the action decided on August 30, 2006, for legal protection purposes, to suspend the effects of CADE's decision until the Judge's final decision. The judicial guarantee was performed by a bank guarantee corresponding to 7% on the gross income before taxes calculated in 1999 (\$153,948). For clarity purposes it should be pointed out that because of the current norms for civil lawsuits, this ordinary action is linked to the suit originally proposed. An order was announced on June 28, 2007, which made the parties aware of the decision from the lower court judge about the maintenance of the legal protection granted, after contested by CADE. On July 3, 2008, Gerdau filed a Bill of Exceptions against the interlocutory decision concerning the untimely presentation of defense on the part of CADE.

It should be noted that just prior to the CADE decision, the Public Prosecution Office of the state of Minas Gerais filed a Public Civil Action, based on the above-mentioned SDE decision, and, without mentioning any new elements, alleged that the Company was involved in activities which violated the antitrust legislation. Gerdau S.A. contested this allegation on July 22, 2005. The Company denies any type of anti-competitive conduct and believes, based on information available, including the opinion of its legal counsel, that the administrative proceeding until now has irregularities, some of which are impossible to resolve. In relation to the merit, Gerdau is sure that it did not practice the alleged conduct and, supported by the opinion of renowned experts, believes that it is possible to reverse its conviction.

Insurance claim

A civil lawsuit has been filed by Sul América Cia. Nacional de Seguros against Gerdau Açominas S.A. and Westdeutsche Landesbank Girozentrale, New York Branch (WestLB), for the payment of \$21,599 to settle an indemnity claim, which has been deposited in court. The insurance company pleaded doubt in relation to whom payment should be made and alleged that the subsidiary is resisting receiving the payment and settling the matter. The lawsuit was challenged both by the Bank (which claims to have no right to the amount deposited,

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

which settles the doubt raised by Sul América) and by the subsidiary (which claims that there is no such doubt and justification to refuse payment since the amount owed by Sul América is higher than the amount involved). Subsequently, Sul América claimed fault in the Bank's representation, a matter that has already been settled, and the judicial deposit was withdrawn in December 2004.

Based on the opinion of its legal counsel, the subsidiary assesses the risk of loss as remote and that the sentence will declare the amount payable within the amount stated in the pleading. Also, Gerdau Açominas S.A. filed, prior to this lawsuit, a collection lawsuit for the amounts recognized by the insurance companies. The lawsuits are pending. The subsidiary expects a favorable outcome in this lawsuit. The civil lawsuits arise from an accident on March 23, 2002 with the blast furnace regenerators of the Ouro Branco steel plants, which resulted in the stoppage of several activities, with damages to the steel mill equipment and loss of profits. The equipment and the loss of profits arising from the accidents were covered by an insurance policy. The report on the events and the loss claim for prompt payment were filed with IRB – Brasil Resseguros, and an advance payment of \$38,947 was received in 2002.

In 2002, a preliminary and conservative estimate of indemnities related to the coverage of loss of profits and property damages, in the total amount of approximately \$69,100, was recorded based on the amount of fixed costs incurred during the period of partial stoppage of the steel mill activities and the immediate expenses to be incurred to recover the equipment temporarily. This estimate approximates the advance received (\$38,947) plus the amount proposed by the insurance company as a complement to settle the indemnity (\$21,599). Subsequently, new amounts were added to the dispute as stated in the subsidiary's answer, although not yet recorded. In addition to these amounts, the Company incurred other costs for the recovery of the damage resulting from the accident, as well as other related losses that were listed in its challenge to the lawsuit in progress and which will be confirmed during the discovery phase, when they will be recorded. The case is still in progress with the engineering and accounting experts, who will judicially demonstrate the amounts stated by Gerdau Açominas S.A.

Based on the opinion of its legal counsel, Management considers that the risk of losses from other contingencies affecting the results of operations or the consolidated financial position of the Company is remote.

7 Shareholders' equity

Share capital

As of June 30, 2008, 496,586,494 shares of Common stock and 934,793,732 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 1,500,000,000 Common shares and 3,000,000,000 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.

At June 30, 2008, the Company held in treasury 1,697,538 common shares at a cost of \$330 and 9,320,493 Preferred shares at a cost of \$57,110 (5,030,532 preferred shares at June 30, 2007 and 4,966,651 at December 31, 2007 at a cost of \$45,354 and at a cost of \$44,778, respectively which represent 10,061,064 preferred shares at June 30, 2007 and 9,933,302 at December 31, 2007 after the stock bonus described below.

Public Offering of Shares: As per resolution of the Board of Directors' meeting and a significant event notice published on March 3, 2008, Gerdau S.A. increased its capital on April 25, 2008 from \$3,432,613 to \$5,013,393 by issuing 16,686,239 new common shares and 27,313,761 new preferred shares, all of which were registered, book entry, and without par value.

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

Additional Public Offering of Shares: Subsequently, on May 8, 2008, Gerdau S.A. increased its capital again from \$5,013,393 to \$5,159,267 by issuing 4,097,064 new preferred, nominative, and book entry shares, without par value.

Costs directly related to the capital increase, net of taxes, in the amount of \$9,105, are being deducted from the above-mentioned capital increases.

Bonus: According to the Extraordinary Shareholders' Meeting and significant event notice of May 30, 2008, Gerdau S.A. issued on June 12, 2008 a Bonus with a capital increase from \$5,159,267 to \$7,300,726 (net of capital increase costs of \$9,105) by use of reserves in the amount of \$2,141,459 with issue of new shares and credit of a bonus share for each share held June 12, 2008, the date of reserve capitalization, observing the types of shares.

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. All computations of EPS presented below have been retroactively adjusted to reflect the stock bonus of one share per each share hold approved by the Shareholder's Meeting on May 30, 2008 (Note 7).

Basic

	Six-month period ended June 30, 2008			Six-month period ended June 30, 2007		
	Common	Preferred	Total	Common	Preferred	Total
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Dividends and interest on equity declared	96,971	180,400	277,371	64,730	120,436	185,166
Allocated undistributed earnings	<u>376,756</u>	<u>700,906</u>	<u>1,077,662</u>	<u>229,358</u>	<u>426,742</u>	<u>656,100</u>
Allocated net income available to Common and Preferred shareholders	<u><u>473,727</u></u>	<u><u>881,306</u></u>	<u><u>1,355,033</u></u>	<u><u>294,088</u></u>	<u><u>547,178</u></u>	<u><u>841,266</u></u>
Basic denominator						
Weighted-average outstanding shares, deducting the average treasury shares.	<u>477,274,001</u>	<u>887,907,330</u>		<u>463,214,016</u>	<u>861,852,866</u>	
Earnings per share (in US\$) – Basic	<u><u>0.99</u></u>	<u><u>0.99</u></u>		<u><u>0.63</u></u>	<u><u>0.63</u></u>	
	Three-month period ended June 30, 2008			Three-month period ended June 30, 2007		
	Common	Preferred	Total	Common	Preferred	Total
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Dividends and interest on equity declared	47,399	88,159	135,558	38,910	72,395	111,305
Allocated undistributed earnings	<u>266,762</u>	<u>496,278</u>	<u>763,040</u>	<u>106,706</u>	<u>198,535</u>	<u>305,241</u>
Allocated net income available to Common and Preferred shareholders	<u><u>314,161</u></u>	<u><u>584,437</u></u>	<u><u>898,598</u></u>	<u><u>145,616</u></u>	<u><u>270,930</u></u>	<u><u>416,546</u></u>
Basic denominator						
Weighted-average outstanding shares, deducting the average treasury shares.	<u>487,818,990</u>	<u>907,682,784</u>		<u>463,214,016</u>	<u>861,891,078</u>	
Earnings per share (in US\$) – Basic	<u><u>0.64</u></u>	<u><u>0.64</u></u>		<u><u>0.31</u></u>	<u><u>0.31</u></u>	

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

Diluted

	Six-month period ended June 30,	
	2008	2007
Diluted numerator		
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	881,306	547,178
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. In June 2007, also the option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau.	2,070	2,988
	<u>883,376</u>	<u>550,166</u>
Net income allocated to common shareholders	473,727	294,088
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. In June 2007, also the option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau.	(2,070)	(2,988)
	<u>471,657</u>	<u>291,100</u>
Diluted denominator		
Weighted - average number of shares outstanding		
Common Shares	477,274,001	463,214,016
Preferred Shares		
Weighted-average number of preferred shares outstanding	887,907,330	861,852,866
Potential increase in number of preferred shares outstanding in respect of stock option plan	5,990,041	3,846,258
Potential issuable preferred shares with respect to option to settle acquisition of additional interest in Diaco in shares of the Company	-	7,656,394
Option granted to minority shareholders of Sipar to sell their shares to Gerdau	-	2,099,096
Total	<u>893,897,371</u>	<u>875,454,614</u>
Earnings per share – Diluted (Common and Preferred Shares)	<u>0.99</u>	<u>0.63</u>

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

	Three-month period ended	
	June 30,	
Diluted numerator	2008	2007
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	584,437	270,930
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. In June 2007, also the option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau.	1,113	1,464
	<u>585,550</u>	<u>272,394</u>
Net income allocated to common shareholders	314,161	145,616
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. In June 2007, also the option to settle in shares the purchase price of an additional interest in Diaco to sell their shares to Gerdau.	(1,113)	(1,464)
	<u>313,048</u>	<u>144,152</u>
Three-month period ended		
June 30,		
Diluted denominator	2008	2007
Weighted - average number of shares outstanding		
Common Shares	487,818,990	463,214,016
Preferred Shares		
Weighted-average number of preferred shares outstanding	907,682,784	861,891,078
Potential increase in number of preferred shares outstanding in respect of stock option plan	4,772,458	4,218,166
Potential issuable preferred shares with respect to option to settle acquisition of additional interest in Diaco in shares of the Company	-	7,272,220
Option granted to minority shareholders of Sipar to sell their shares to Gerdau	-	1,925,064
Total	<u>912,455,242</u>	<u>875,306,528</u>
Earnings per share – Diluted (Common and Preferred Shares)	<u>0.64</u>	<u>0.31</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 periodically enters into derivative instruments, primarily cross-currency interest rate swap contracts, and interest rate swaps. Under the swap contracts Gerdau

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

and operations in Brazil has the right to receive on maturity U.S. dollars plus accrued interest at a fixed rate and have the obligation to pay Brazilian *reais* at a variable rate based on the CDI rate.

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

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

Gerdau Açominas also 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 \$251,125 and expiration date between June 2010 and November 2011. The aggregate fair value of these interest rate swaps is a loss of \$5,065 (net gain of \$5,617 at June 30, 2007 and net loss of \$3,329 at December 31, 2007).

Gerdau Açominas entered on a reverse swap where it pays a fixed interest rate in U.S. dollars and receives a variable interest rate based on Libor in Japanese yens, with a notional amount of \$267,000. This swap has a final maturity date on March 24, 2016. The aggregate fair value of this swap is a net gain of \$14,333 (loss of \$12,811 at June 30, 2007 and a net gain of \$871 at December 31, 2007). Together with this swap, Gerdau has a "extinguisher swap", which its Market-to-market changes according to the credit situation of the company. Also, this swap extinguishes if Gerdau has a credit default event in the international market.

GTL Equity Investments Corp. entered into a swap contract with maturity on October 1, 2008 with a nominal value of \$50 million as of June 30, 2008. The unrealized net gains were \$133 as of June 30, 2008.

GTL Equity Investments Corp. also contracted two offshore swaps falling due on October 21, 2010. The nominal values of these contracts added together were \$200 million on June 30, 2008. Their unrealized gains were \$755 on June 30, 2008.

Operations in South America

Empresa Siderúrgica del Peru S.A.A. - Siderperu - entered into an interest rate swap contract, whereby it receives a variable interest rate based on Libor and pays a fixed interest rate in US dollars. This contract has a nominal value of \$75,000 and maturity date of April 30, 2014. The fair value of this contract, which represents the amount to be received if the contract were finalized on June 30, 2008, is a net loss of \$1,689 (loss of \$1,429 at December 31, 2007).

Gerdau Ameristeel

During March 2008, Gerdau Ameristeel entered into interest rate swap contracts, qualified as cash flow hedges, in order to reduce its exposure to the variation based on Libor of the Term Loan Facility (note 5). The contracts have a nominal value of \$1,000,000; the fixed interest rates for such swaps are between 3.3005% and 3.7070% and have maturities between March 2012 and September 2013. If added to the spread over Libor related to the tranche B of the Term Loan Facility, the interest rate for these swaps would be between 4.5505% and 4.9570%. The fair value of these swaps, which represents the amount to be paid if the contract were finalized on June 30, 2008, is a net gain of \$26,616, which is recorded as a specific component of shareholders' equity.

In order to reduce its exposure to changes in the fair value of its Senior Notes, Gerdau Ameristeel entered into interest rate swaps, which are qualified as fair value hedges, subsequent to the refinancing of its debt. The contracts have a nominal value of \$200,000 and the ones falling due on July 15, 2011 were paid on April 18, 2008. The contract's market value (fair value) paid on the closing date was a gain of \$2,500 (loss of \$2,548 as of June 30, 2007 and \$4,844 at loss at December 31, 2007).

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

Additionally Gerdau Ameristeel had an interest rate option (known as caps and floor or collars) related to the fair value hedge mentioned above in order to limit its exposure to changes in interest rates based on Libor. This option was also paid on April 18, 2008. The fair value paid on the settlement date was \$4,600.

Options on minority interest in consolidated subsidiaries

On January 10, 2006, the Company completed its 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, the Spanish financial conglomerate, and an entity owned by executives of Sidenor, purchased simultaneously 40% and 20% of Sidenor, respectively. The acquisition price of 100% of Sidenor consists of a fixed installment of € 443,820 thousand plus a contingent variable installment to be paid only by the Company. The fixed price paid by the Company on January 10, 2006 for its 40% in Sidenor was € 165,828 (\$261,080). The Santander Group has the option to sell its interest in Sidenor to the Company 5 years after the purchase at a fixed price with a fixed interest rate and Sidenor has the right of preference to purchase these shares and also may at any time during the period of the put option validity to require that the Santander Group exercises the put option before the expiration date. Furthermore, the Company consented to guarantee to pay to the Santander Group an agreed amount (the same as the fixed price of the put option mentioned above plus interest accrued using the same fixed interest rate) at any time up to 6 years after exercising the option in the event that Santander Group has not sold the shares acquired up to that date. In this case, if the Santander Group requires payment of the guarantee, the Company has the right to acquire Sidenor's shares or to indicate a third party to acquire the shares. The amount received for the sale of shares and dividends paid by Sidenor to the Santander Group should be reimbursed to the Company. The Company's obligation to purchase from Santander Group its 40% interest in Corporación Sidenor is recorded in Minority Interest. As of June 30, 2008, such potential commitment totaled \$279,967 (\$350,481 as of June 30, 2007 and \$266,176 as of December 31, 2007).

During 2007, the subsidiary Gerdau Aços Especiais has reached an agreement with BNDESPAR Participações S.A. (“BNDESPAR”), which is the largest minority shareholder of Aços Villares S.A. (“Villares”). This agreement provides BNDESPAR a put option to sell its interest 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 in 2006, plus interest of TJLP + 4% p.a., less any dividends paid by Villares capitalized on the same interest, or (b) the price per share of the public offering divided by 130% of the price of Gerdau S.A. shares, which result in a total quantity of options to BNDESPAR. At the end of fifth year of the contract, BNDESPAR has the higher option between (a) or (b) above. From the fifth and up to the seventh year, the option is still outstanding, but the price is only the one described on (a) above. As of December 31, 2007, this put option has no market value, because the underlying asset has a market quotation significantly higher than any of the exercise prices described in (a) and (b) above. Therefore, no liability was recorded regarding this put option at that time. On May 21, 2008 BNDESPAR sold its shares to Metalúrgica Gerdau S.A. and the option ceased to exist.

Gerdau Ameristeel has the purchase option of 16% of the remaining shares of PCS, which can be exercised after 5 years from the purchase date. Additionally, the minority shareholders also have the option to sell the 16% of the remaining shares of PCS to Gerdau Ameristeel, for the established price and also after 5 years from the date of transaction. The established price was set as the EBITDAs average in the 5 last years ended before the option exercise, multiplied by 5. If Gerdau Ameristeel does not execute the purchase option, then the minority shareholders are entitled to execute the put option of their remaining share to Gerdau Ameristeel. In case the purchase/sale option execution is requested, the other party is obligated to sell/purchase the remaining share. This purchase option does not qualify as a derivative under SFAS 133 and because of that, it was not recorded in the financial statements. As of June 30, 2008, the fair value of this purchase option totaled \$68,839.

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

10 Segment information

The Gerdau Executive Committee is composed by the most senior officers of the Company and is responsible for managing of the business.

The Company's reportable segments under SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" correspond to the business units through which the Gerdau Executive Committee manages its operations: long steel products in Brazil, specialty steel products in Brazil, Europe and United States (from April, 2008), Açominas (corresponding to the operations of the former Açominas carried out through the mill located in Ouro Branco, Minas Gerais), Latin America (which excludes the operations in Brazil) and North America.

Identifiable assets are trade accounts receivable, inventories, property, plant and equipment, goodwill and intangible assets. Identifiable assets originally presented for June 30, 2007 were trade accounts receivable, inventories and property, plant and equipment. During 2007, the Company entered into relevant acquisitions of companies, particularly Chaparral Steel, which resulted in recognition of significant amounts of goodwill and intangible assets. As a result of these acquisitions the Gerdau Executive Committee included goodwill and intangible assets in the identifiable assets as from the fourth quarter of 2007 with the objective of analyzing the relevant goodwill and intangible assets acquired in the 2007 acquisitions. For comparative purposes the corresponding information as of June 30, 2007 has been modified with respect to the original information presented in order to use the same criteria as of June 30, 2008.

During 2007, the Company started to present its consolidated financial statements under IFRS in substitution of Brazilian GAAP to be in accordance with changes in the Brazilian accounting law. As a result of the change in the Consolidated Financial Statements from BRGAAP to IFRS, the Gerdau Executive Committee as from the first quarter of 2008 started to use IFRS for internal decision making. For comparative purposes the corresponding information as of June 30, 2007 and December 31, 2007 has been modified with respect to the original information presented in order to use the same criteria as of June 30, 2008.

Six-month period ended June 30, 2008									
	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	3,164,892	1,574,584	2,399,927	1,295,799	4,823,958	(667,642)	12,591,518	(760,955)	11,830,563
Financial income (expenses), net	67,264	115,741	(8,217)	(8,107)	(94,392)	97,632	169,921	(30,872)	139,049
Income before minority interest	607,105	248,348	235,897	190,906	487,738	248,946	2,018,940	(351,689)	1,667,251
Capital expenditures	116,650	185,048	1,193,015	579,957	275,027	(252)	2,349,445	445,170	2,794,615
Depreciation and amortization	100,448	138,884	96,221	32,799	161,298	(7,358)	522,292	12,728	535,020
Identifiable assets	3,780,993	4,099,980	5,454,887	2,206,347	8,126,436	(387,503)	23,281,140	(91,950)	23,189,190
Six-month period ended June 30, 2007									
	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	1,829,614	866,101	1,640,820	795,464	2,833,825	(242,814)	7,723,010	(442,151)	7,280,859
Financial income (expenses), net	21,296	117,116	(36,449)	22,362	(26,350)	106,956	204,931	(9,211)	195,720
Income before minority interest	228,540	208,527	153,397	131,130	291,239	193,648	1,206,481	(66,325)	1,140,156
Capital expenditures	84,441	387,211	58,749	486,317	91,113	14,728	1,122,559	(63,572)	1,058,987
Depreciation and amortization	72,805	86,601	87,162	13,797	57,444	(11,168)	306,641	(19,463)	287,178
Identifiable assets	2,609,699	2,682,743	2,819,575	1,527,310	2,807,378	(353,433)	12,093,272	(113,946)	11,979,326
Three-month period ended June 30, 2008									
	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	1,879,379	968,170	1,497,013	752,909	2,817,644	(437,376)	7,477,739	(763,863)	6,713,876
Financial income (expenses), net	71,217	137,581	12,998	(4,098)	(39,827)	85,983	263,854	654	264,508
Income before minority interest	408,441	200,091	143,062	136,632	310,658	196,811	1,395,695	(327,325)	1,068,370
Capital expenditures	22,784	121,850	1,178,730	305,839	249,080	(9,162)	1,869,121	417,666	2,286,787
Depreciation and amortization	54,564	77,560	62,064	17,612	86,950	(18,035)	280,715	11,115	291,830
Identifiable assets	453,347	229,950	2,297,521	184,473	684,260	293,435	4,142,986	187,316	4,330,302

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

Three-month period ended June 30, 2007									
	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	1,006,887	477,370	900,719	460,482	1,453,255	(153,122)	4,145,591	(354,137)	3,791,454
Financial income (expenses), net	13,965	74,101	(24,396)	4,979	(17,497)	33,866	85,018	16,375	101,393
Income before minority interest	130,437	117,930	79,014	70,970	141,557	92,020	631,928	(35,660)	596,268
Capital expenditures	45,081	172,855	27,557	192,808	41,594	9,497	489,392	(56,019)	433,373
Depreciation and amortization	38,641	49,382	47,916	11,595	30,399	(10,882)	167,051	(31,281)	135,770
Identifiable assets	257,761	230,631	147,117	242,887	95,508	(25,463)	948,441	87,772	1,036,213

Year ended December 31, 2007									
	Long Brazil	Açominas Ouro Branco	Specialty Steel	Latin America (except Brazil)	North America	Inter-Segment Elimination	Total	Adjustments and reconciliations	Total as per financial statements
Depreciation and amortization	168,104	185,042	183,671	49,441	174,752	(17,401)	743,609	(55,306)	688,303
Identifiable assets	2,963,751	3,517,769	2,975,941	1,688,201	7,337,913	(319,497)	18,164,078	(201,870)	17,962,208

The segment information above has been prepared under IFRS, which is the basis of presentation used for internal decision making. Corporate activities performed for the benefit of the Group as a whole are not separately presented and are included as part of the information of Long Brazil.

The main products by business segment are as follows:

Long Brazil: rebars, merchant bars, wire rod, profiles, and drawn products

Açominas Ouro Branco: billets, blooms, slabs, wire rod, and structural shapes

Specialty Steel: stainless steel, round and square bars, wire rod

Latin America: rebars, merchant bars, and drawn products

North America: rebars, merchant bars, wire rod, heavy and light structural shapes

The Adjustments and Reconciliations column include the effects of differences between the criteria followed under IFRS and the criteria followed in the consolidated financial statements.

Geographic information about the Company, prepared following the same basis as the financial statements, is as follows with revenues classified by the geographic region from where the products have been shipped:

Six-month period ended June 30, 2008					
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	4,773,991	1,219,105	4,862,524	974,943	11,830,563
Long lived assets	6,715,694	1,243,353	7,470,545	1,049,475	16,479,067

Six-month period ended June 30, 2007					
	Brazil	South 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

Three-month period ended June 30, 2008					
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	2,689,897	670,266	2,830,861	522,852	6,713,876
Long lived assets	660,745	204,921	1,803,126	133,527	2,802,319

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

	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	460,534	163,553	42,060	16,303	682,450

	Year ended December 31, 2007				
	Brazil	Latin America (except Brazil)	North America	Europe	Total
Net sales	6,662,685	1,720,294	5,806,659	1,624,879	15,814,517
Long lived assets	5,656,113	860,875	5,719,218	862,538	13,098,744

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

No information is presented for breakdown of revenue by major products as such information is not maintained on a consolidated basis by the Company, which has such information only in volume.

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 is as follows:

	Tree-month period ended		Six-month period ended	
	June 30		June 30	
	2008	2007	2008	2007
Income before taxes and minority interest	1,475,015	750,848	2,256,534	1,461,390
Brazilian composite statutory income tax rate	34%	34%	34%	34%
Income tax at Brazilian income tax rate	501,505	255,288	767,222	496,873
Reconciling items:				
Foreign income having different statutory rates	31,368	(39,054)	51,368	(51,490)
Non-deductible expenses net of non-taxable income	(48,734)	(2,250)	(79,094)	(12,544)
Changes in valuation allowance	7,457	-	16,297	-
Benefit of deductible interest on equity paid to shareholders	(78,484)	(18,864)	(95,924)	(39,426)
Tax deductible goodwill recorded on statutory books	(43,387)	(35,260)	(84,817)	(68,475)
Tax exempt income in North America	(11,176)	-	(24,228)	-
Equity in earnings of unconsolidated companies, net	24,981	6,878	32,449	13,201
Other, net	23,115	(12,158)	6,010	(16,905)
Income tax expense	<u>406,645</u>	<u>154,580</u>	<u>589,283</u>	<u>321,234</u>

As of June 30, 2008, the Company had \$53.1 million of unrecognized tax benefits not included in the contractual obligations table. Based on the uncertainties associated with the settlement of these items, the Company is unable to make reasonably reliable estimates of the period of the potential cash settlements, if any, with taxing authorities.

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 2003 to 2008 remains open for tax examinations. In the United States and Spain, the years from 2005 to 2008 remains open for tax examinations.

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

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,	
	2008	2007	2008	2007
Components of net periodic benefit cost				
Service cost	6,106	4,350	11,929	8,440
Interest cost	15,692	11,627	30,658	22,559
Expected return on plan assets	(29,385)	(21,345)	(57,409)	(41,414)
Amortization of transition asset	(224)	(1,229)	(437)	(2,385)
Amortization of prior service cost	319	266	623	516
Amortization of net actuarial gain	(2,279)	(404)	(4,453)	(784)
Employees contributions	(1,586)	(743)	(3,099)	(1,441)
Net pension benefit cost	<u>(11,357)</u>	<u>(7,478)</u>	<u>(22,188)</u>	<u>(14,509)</u>

North America plans

Pension Plan

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Components of net periodic benefit cost				
Service cost	7,558	5,989	13,697	11,419
Interest cost	12,598	8,046	20,839	15,229
Expected return on plan assets	(12,670)	(9,270)	(21,589)	(16,650)
Amortization of transition liability	67	46	120	96
Amortization of prior service cost	1,201	1,069	2,335	1,632
Amortization of net actuarial loss	709	107	1,339	1,547
Net pension benefit cost	<u>9,463</u>	<u>5,987</u>	<u>16,741</u>	<u>13,273</u>

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

Other benefits

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Components of net periodic benefit cost				
Service cost	805	864	1,544	1,371
Interest cost	2,190	1,878	3,796	2,999
Amortization of prior service cost	(186)	(78)	(275)	(165)
Amortization of net actuarial loss	115	134	252	249
Net pension benefit cost	<u>2,924</u>	<u>2,798</u>	<u>5,317</u>	<u>4,454</u>

13 Guarantee of indebtedness

- (a) Gerdau has provided a surety to Dona Francisca Energética S.A., in financing contracts which amount to R\$ 66,317 (equivalent of \$41,659 period-end exchange rate) and represents 51.82% of total debt. This guarantee was established before December 2002, and, therefore, is not covered by the accounting requirements of FASB Interpretation No. 45 ("FIN 45"). The guarantee may be executed by lenders in the event of default by Dona Francisca Energética S.A.
- (b) Gerdau, Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau de Aços are the guarantors on Senior Liquidity Facility of its subsidiary GTL Trade Finance Inc., in amount to \$400,000. Since all the entities are under the common control of Metalúrgica Gerdau, this guarantee is not covered by the recognition provisions of FIN 45.
- (c) Gerdau is the guarantor on loans of its subsidiary GTL Spain in the amount of \$4,066. Gerdau Açominas, Gerdau Aços Longos, Gerdau Aços Especiais and Comercial Gerdau de Aços guarantee the \$600,000 Perpetual Senior Securities issued by Gerdau S.A. Gerdau also guarantees loans of its subsidiaries Gerdau Açominas, Gerdau Aços Longos and Siderperu in the amount of \$651,775, \$29,097 and \$150,000, respectively.

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

- (d) Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos provide guarantees to Banco Gerdau S.A. that finance sales to selected customers. These sales are recognized at the time the products are delivered. Under the vendor program, the Company is the secondary obligor to the bank. At June 30, 2008 customer guarantees provided by the company totaled \$4,544, \$30,800, \$18,977 and \$2,271, respectively. Since Banco Gerdau S.A., Gerdau Açominas, Gerdau Comercial de Aços, Gerdau Aços Especiais and Gerdau Aços Longos are under the common control of Metalúrgica Gerdau, this guarantee is not covered by the recognition provisions of FIN 45.
- (e) Gerdau S.A., Gerdau Aços Longos, Gerdau Açominas, Gerdau Aços Especiais, Gerdau Comercial de Aços and Açominas Overseas provide guarantees to Gerdau Ameristeel on its Term Loan for the acquisition of Chaparral Steel Company, on the total amount of \$2,600,000. Since the guarantors and the guarantee are entities under common control of Gerdau S.A., this guarantee is not covered by the recognition provisions of FIN 45.
- (f) Gerdau S.A., Gerdau Aços Longos, Gerdau Açominas, Gerdau Aços Especiais and Gerdau Comercial de Aços are the guarantor on Ten Years Bond of its subsidiary GTL Trade Finance Inc., in amount to \$1,500,000. Since all the entities are under the common control of Metalúrgica Gerdau, this guarantee is not covered by the recognition provisions of FIN 45.

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

- (g) Gerdau S.A., Gerdau Aços Longos S.A., Gerdau Aços Especias S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. provide guarantee to GTL Trade Finance Inc. refers to Bridge Loan captation with maturity date in six months. In June, 2008 the amount guaranteed is \$489 million.
- (h) Gerdau S.A., Gerdau Aços Longos S.A., Gerdau Aços Especias S.A., Gerdau Açominas S.A. and Gerdau Comercial de Aços S.A. provide joint and several guarantee to Gerdau MacSteel Inc. refers to a loan denominated “Term and Revolving Credit Agreement”, with maturity date in three years and amount to \$484 million.

14 Subsequent events

- I) On July 14, 2008, the Company, through its subsidiary Gerdau Ameristeel, purchased the assets of Hearon Steel Co., Hearon Steel of Tulsa, Inc., Hearon Co. of Oklahoma City, Inc., and Steel Coating, Inc., all fabricated reinforcing steel and epoxy coating facilities with units situated in the cities of Muskogee, Tulsa, and Oklahoma City, for approximately \$15 million.
- II) On August 1, 2008, the Executive Board prepared a proposal, which was submitted to the Board of Directors on August 6, 2008, to pay anticipated dividends out of income for the second quarter of this year in the form of interest on capital, which was calculated and credited based on the positions of shareholders as of August 15, 2008 in the amount of \$321,209 (\$0.23 per common and preferred share) with payment in August 27, 2008 and represented the early payment of the mandatory minimum dividend.
- III) On September 1, 2008, the Company, through its subsidiary Empresa Siderúrgica del Perú S.A.A. - Siderperu, located in the city of Chimbote (Peru), announced an investment plan of \$1.4 billion to increase significantly its installed production capacity.
- IV) On September 11, 2008, the Company, through its subsidiary Sipar Gerdau, located in the city of Rosário (Argentina), announced an investment plan of \$0.5 billion to increase significantly its installed production capacity.
- V) On September 18, 2008, the Company, through its subsidiary Gerdau Aços Longos S.A., signed the agreement to acquire K.e.r.s.p.e. Empreendimentos e Participações Ltda., company of Super Laminação Group, in the amount of \$46,975. The business involves four scraps’ warehouses situated in the cities of São Paulo, Piracicaba and São Caetano do Sul, in São Paulo State (Brazil) and Betim City, in Minas Gerais State (Brazil).
- VI) On September 29, 2008, the Company released market information stating the following: Grupo Gerdau informs its shareholders and the general market that it has not contracted foreign exchange derivatives or speculative financial investments that involve risk and/or leveraging nor adopted the use of these derivative financial instruments as part of its practice. The Group maintains a conservative policy of financial management and as part of its corporate governance practices informs the financial instruments it has contracted each quarter in the notes to its financial statements.

All information related to the derivatives transactions above are stated at Note 9 (Derivative instruments), where the Company also discloses that changes in the rate of 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 (See note 5 – Debt and debentures).

* * *