

# Gerdau Açominas S.A.

BALANCE SHEET AT DECEMBER, 31

(IN THOUSANDS OF REAIS)

ASSETS		COMPANY		CONSOLIDATED	
		2004	2003	2004	2003
<b>CURRENT ASSETS</b>					
Cash and cash equivalents .....	note 5	597,950	179,266	763,821	258,327
Trade accounts receivable .....	note 6	1,398,760	829,542	1,269,716	762,045
Inventories .....	note 7	1,732,128	1,172,964	1,742,064	1,179,545
Tax credits .....	note 8	169,655	96,652	176,067	98,665
Deferred income tax and social contribution on net income .....	note 9	304,190	98,412	304,190	98,412
Other accounts receivable .....		117,977	147,337	115,965	151,760
<b>TOTAL CURRENT ASSETS .....</b>		<b>4,320,660</b>	<b>2,524,173</b>	<b>4,371,823</b>	<b>2,548,754</b>
<b>LONG-TERM RECEIVABLES</b>					
Related parties .....	note 19	8,178	-	21,804	-
Eletrobrás loans .....		1,304	1,304	1,304	1,304
Deferred income tax and social contribution on net income .....	note 9	109,298	385,423	111,719	388,373
Compulsory deposits and other .....	note 10	105,877	53,502	114,811	62,823
<b>TOTAL LONG-TERM RECEIVABLES .....</b>		<b>224,657</b>	<b>440,229</b>	<b>249,638</b>	<b>452,500</b>
<b>PERMANENT ASSETS</b>					
Investments .....	note 11	154,372	197,463	43,669	66,638
Fixed assets .....	note 12	4,866,670	4,397,120	4,924,735	4,504,438
Deferred charges .....	note 13	23,608	10,515	29,665	12,386
<b>TOTAL PERMANENT ASSETS .....</b>		<b>5,044,650</b>	<b>4,605,098</b>	<b>4,998,069</b>	<b>4,583,462</b>
<b>TOTAL ASSETS .....</b>		<b>9,589,967</b>	<b>7,569,500</b>	<b>9,619,530</b>	<b>7,584,716</b>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDER'S EQUITY	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
<b>CURRENT LIABILITIES</b>				
Trade accounts payable.....	844,851	464,233	848,906	466,675
Financing ..... note 14	877,613	1,889,592	895,067	1,898,976
Taxes and contributions payable..... note 17	287,503	105,363	291,106	107,126
Deferred income tax and social contribution on net income ..... note 9	149,905	19,790	149,905	19,790
Salaries payable.....	83,535	64,212	83,667	65,454
Dividends payable ..... note 21	306,197	283,986	306,197	283,986
Related parties ..... note 19	-	138,309	-	125,320
Other accounts payable.....	98,356	90,208	99,225	91,175
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>2,647,960</b>	<b>3,055,693</b>	<b>2,674,073</b>	<b>3,058,502</b>
<b>LONG-TERM LIABILITIES</b>				
Financing ..... note 14	2,079,721	1,412,705	2,083,176	1,424,506
Provision for contingencies ..... note 18	51,993	31,533	51,993	31,645
Post-employment benefits ..... note 20	6,418	7,794	6,418	7,794
Other accounts payable.....	37,829	31,455	37,824	31,949
<b>TOTAL LONG-TERM LIABILITIES.....</b>	<b>2,175,961</b>	<b>1,483,487</b>	<b>2,179,411</b>	<b>1,495,894</b>
<b>SHAREHOLDERS' EQUITY</b>				
Capital ..... note 21	2,340,576	2,340,576	2,340,576	2,340,576
Capital reserves.....	289,667	98,762	289,667	98,762
Revenue reserves.....	2,135,803	60,222	2,135,803	60,222
Retained earnings.....	-	530,760	-	530,760
<b>TOTAL SHAREHOLDERS' EQUITY.....</b>	<b>4,766,046</b>	<b>3,030,320</b>	<b>4,766,046</b>	<b>3,030,320</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<b>9,589,967</b>	<b>7,569,500</b>	<b>9,619,530</b>	<b>7,584,716</b>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF INCOME  
YEARS ENDED DECEMBER, 31  
(IN THOUSANDS OF REAIS)

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
GROSS SALES REVENUES .....	12,964,674	3,164,358	13,090,660	3,174,613
Taxes on sales .....	(2,300,771)	(292,972)	(2,305,821)	(292,970)
Freights and discounts .....	(627,550)	(233,792)	(629,425)	(233,801)
<b>NET SALES REVENUES .....</b>	<b>10,036,353</b>	<b>2,637,594</b>	<b>10,155,414</b>	<b>2,647,842</b>
COST OF SALES .....	(5,828,901)	(1,638,289)	(5,914,999)	(1,647,875)
<b>GROSS PROFIT .....</b>	<b>4,207,452</b>	<b>999,305</b>	<b>4,240,415</b>	<b>999,967</b>
SELLING EXPENSES .....	(396,972)	(94,133)	(400,301)	(94,702)
FINANCIAL INCOME .....	81,317	(30,847)	82,364	(29,052)
FINANCIAL EXPENSES .....	(59,337)	(93,827)	(57,529)	(94,173)
GENERAL AND ADMINISTRATIVE EXPENSES				
Management fees .....	(39,603)	(9,460)	(40,267)	(9,706)
General expenses .....	(599,077)	(164,086)	(605,243)	(164,334)
EQUITY IN THE EARNINGS (LOSSES) OF SUBSIDIARIES AND ASSOCIATED COMPANIES .....	10,391	6,458	(10,025)	(1,323)
OTHER OPERATING INCOME (EXPENSES), NET.....	143,473	(1,068)	145,150	(1,046)
<b>OPERATING PROFIT .....</b>	<b>3,347,644</b>	<b>612,342</b>	<b>3,354,564</b>	<b>605,631</b>
NON-OPERATING INCOME (EXPENSE), NET .....	(13,916)	43,127	(13,363)	49,856
<b>PROFIT BEFORE TAXES AND PROFIT SHARING .....</b>	<b>3,333,728</b>	<b>655,469</b>	<b>3,341,201</b>	<b>655,487</b>
PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME.....				
Current .....	(610,180)	(142,204)	(617,176)	(142,357)
Deferred .....	(200,462)	346,038	(200,939)	346,173
MANAGEMENT PROFIT SHARING .....	(39,603)	(9,460)	(39,603)	(9,460)
<b>NET INCOME FOR THE YEAR .....</b>	<b>2,483,483</b>	<b>849,843</b>	<b>2,483,483</b>	<b>849,843</b>
Net income per share - R\$ .....	15.65	5.36		
Net equity per share - R\$.....	30.04	19.10		

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION  
YEARS ENDED DECEMBER 31  
(IN THOUSANDS OF REAIS)

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
<b>FINANCIAL RESOURCES WERE PROVIDED BY</b>				
Operations				
Net income for the year .....	2,483,483	849,843	2,483,483	849,843
Expenses (income) not affecting working capital:				
Depreciation and amortization .....	485,481	147,273	492,433	148,450
Cost of permanent asset disposals.....	74,995	6,435	79,505	6,462
Equity in the (earnings) losses of subsidiaries and associated companies .....	note 11 (10,391)	(6,458)	10,025	1,323
Foreign exchange effects on working capital of foreign companies .....	-	-	(611)	(44,901)
Monetary variations on long-term debt .....	(180,542)	(48,893)	(180,542)	(45,369)
Monetary variations on long-term receivables.....	(399)	102	(399)	102
From operations .....	<u>2,852,627</u>	<u>948,302</u>	<u>2,883,894</u>	<u>915,910</u>
Third parties				
Contributions to capital reserves .....	190,905	6,950	190,905	6,950
Increase (decrease) in long-term liabilities .....	864,334	(82,578)	864,059	(45,516)
Working capital - operational integration.....	-	(256,530)	-	(256,530)
Working capital of merged/consolidated companies.....	2,451	-	-	(1,157)
Dividends not included in income for the year .....	5,613	600	300	-
<b>TOTAL FUNDS PROVIDED .....</b>	<b>3,915,930</b>	<b>616,744</b>	<b>3,939,158</b>	<b>619,657</b>
<b>FINANCIAL RESOURCES WERE USED FOR</b>				
Investments .....	6,441	52,814	148	52,814
Fixed assets .....	970,534	393,501	977,457	395,552
Deferred charges.....	13,803	1,581	18,654	1,639
Increase (decrease) in long-term receivables.....	(217,730)	274,841	(203,261)	275,079
Dividends/interest on equity .....	note 21 938,662	283,986	938,662	283,986
<b>TOTAL FUNDS USED .....</b>	<b>1,711,710</b>	<b>1,006,723</b>	<b>1,731,660</b>	<b>1,009,070</b>
<b>CHANGES IN WORKING CAPITAL .....</b>	<b><u>2,204,220</u></b>	<b><u>(389,979)</u></b>	<b><u>2,207,498</u></b>	<b><u>(389,413)</u></b>
Working capital				
At the beginning of the year .....	(531,520)	(141,541)	(509,748)	(120,335)
At the end of the year .....	1,672,700	(531,520)	1,697,750	(509,748)
<b>CHANGES IN WORKING CAPITAL .....</b>	<b>2,204,220</b>	<b>(389,979)</b>	<b>2,207,498</b>	<b>(389,413)</b>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES  
IN SHAREHOLDERS' EQUITY  
(IN THOUSANDS OF REAIS)

	CAPITAL RESERVES				REVENUE RESERVES			TOTAL SHAREHOLDERS' EQUITY			
	INVESTMENT INCENTIVES	PREMIUM ON ISSUE OF SHARES	OTHER	TOTAL	LEGAL	INVESTMENTS AND WORKING CAPITAL	REVALUATION RESERVE		RETAINED EARNINGS		
<b>AT DECEMBER 31, 2002</b>	1,699,503	65,615	23,822	2,375	91,812	17,730	-	17,730	372,742	255,694	2,437,481
Net income for the year	-	-	-	-	-	-	-	-	-	849,843	849,843
Capital increase	641,073	-	-	-	-	-	-	-	-	(255,694)	385,379
Investment incentives	-	6,950	-	-	6,950	-	-	-	-	-	6,950
Realization and reversal of reserve	-	-	-	-	-	-	-	-	(372,742)	7,395	(365,347)
Distribution proposed for the Annual General Meeting:											
Legal reserve	-	-	-	-	-	42,492	-	42,492	-	(42,492)	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(283,986)	(283,986)
<b>AT DECEMBER 31, 2003</b>	2,340,576	72,565	23,822	2,375	98,762	60,222	-	60,222	-	530,760	3,030,320
Net income for the year	-	-	-	-	-	-	-	-	-	2,483,483	2,483,483
Investment incentives	-	190,905	-	-	190,905	-	-	-	-	-	190,905
Distribution proposed for the Annual General Meeting:											
Legal reserve	-	-	-	-	-	124,174	-	124,174	-	(124,174)	-
Reserve for investments and working capital	-	-	-	-	-	-	1,951,407	1,951,407	-	(1,951,407)	-
Interest on equity/ proposed dividends	-	-	-	-	-	-	-	-	-	(938,662)	(938,662)
<b>AT DECEMBER 31, 2004</b>	2,340,576	263,470	23,822	2,375	289,667	184,396	1,951,407	2,135,803	-	-	4,766,046

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31  
(IN THOUSANDS OF REAIS)

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Net income for the year .....	2,483,483	849,843	2,483,483	849,843
Equity in the (earnings) losses of subsidiaries and associated companies .....	note 11 (10,391)	(6,458)	10,025	1,323
Provision for credit risks .....	5,135	8,461	5,135	8,461
Loss on disposal of fixed assets .....	9,771	1,492	9,843	1,537
Loss on disposal of investment .....	4,227	-	3,574	-
Monetary and exchange variations .....	(128,671)	85,604	(128,234)	85,398
Depreciation and amortization .....	485,481	147,273	492,433	148,450
Income tax and social contribution on net income .....	317,856	(343,445)	318,769	(344,086)
Interest on debt .....	177,641	79,159	179,827	79,356
Contingencies/judicial deposits .....	6,469	(4,394)	6,136	(4,509)
Changes in trade accounts receivable .....	(604,478)	164,479	(541,337)	59,154
Changes in inventories .....	(555,229)	(106,265)	(562,455)	(105,083)
Changes in trade accounts payable .....	260,590	54,742	264,557	54,381
Other operating activity accounts .....	244,071	(21,756)	244,826	(31,452)
Net cash provided by operating activities .....	2,695,955	908,735	2,786,582	802,773
Purchase/disposal of fixed assets .....	(913,233)	(405,273)	(919,758)	(407,342)
Increase in deferred charges .....	(13,803)	(1,581)	(18,006)	(1,639)
Acquisition/disposal of investments .....	(7,984)	(52,814)	650	(52,814)
Receipt of interest on own capital/profit distribution .....	900	-	-	-
Net cash used in investing activities .....	(934,120)	(459,668)	(937,114)	(461,795)
Suppliers of fixed assets .....	151,445	8,585	151,022	8,511
Working capital financing .....	219,262	(331,504)	232,498	(290,395)
Permanent asset financing .....	442,306	268,753	442,653	268,881
Payments of permanent asset financing .....	(892,765)	(175,108)	(898,300)	(175,460)
Payment of financing interest .....	(176,594)	(104,768)	(177,706)	(104,973)
Loans with related parties .....	(146,502)	(19,012)	(148,141)	(10,695)
Payment of dividends/interest on equity and profit sharing .....	(940,345)	(18,226)	(939,655)	(23,679)
Net cash used in financing activities .....	(1,343,193)	(371,280)	(1,337,629)	(327,810)
Changes in cash and cash equivalents .....	418,642	77,787	511,839	13,168
Cash and short-term investments				
At the beginning of the year .....	note 5 179,266	101,479	258,327	276,444
Restatement of opening balance .....	-	-	(6,345)	(31,895)
Opening balance of consolidated/merged companies for the year .....	42	-	-	610
At the end of the year .....	note 5 597,950	179,266	763,821	258,327

## NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER, 31 2004 AND 2003

(ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

### 1 - OPERATIONS

Gerdau Açominas S.A. is the company that includes the steel producing assets of the Gerdau Group in Brazil and has an installed capacity of 7.6 million tons of crude steel per year. The Gerdau Group is dedicated mainly to the production of common and special steel rods and sale of general steel products (plates and rods), in plants located in Brazil, Uruguay, Chile, Canada, Argentina and the United States of America. The Gerdau Group has an installed capacity of 16.4 million tons of crude steel per year, basically producing steel in electrical furnaces, from scrap and pig iron purchased, for the most part, in the region near each plant (mini-mill concept). Gerdau also operates plants which are capable of producing steel from iron ore (through blast furnaces and direct reduction) and has a unit used exclusively to produce special steels. It is the largest scrap recycling group in Latin America and among the largest in the world.

The industrial sector is the most important market, including manufacturers of consumer goods, such as vehicles and household and commercial equipment that basically use profiled steel in various available specifications. The next most important market is the civil construction sector, which demands a high volume of rebar and wires for concrete. There are also numerous customers for nails, staples and wires, commonly used in the agribusiness sector.

### 2 - PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, which are based on the provisions of Brazilian Corporate Law, together with the rules established by the Brazilian Securities Commission (CVM).

A statement of cash flows (company and consolidated), prepared under the indirect method, is being presented as supplementary information in order to provide additional information.

### 3 - SIGNIFICANT ACCOUNTING PRACTICES

**a) Cash and cash equivalents** - financial investments are recorded at cost plus income accrued up to the balance sheet date, applying the interest rates agreed with the financial institutions, and do not exceed market value;

**b) Trade accounts receivable** - are stated at realizable values, and accounts receivable from foreign customers are adjusted based on the exchange rates effective at the balance sheet date. The provision for credit risks is calculated based on a credit risk analysis, which includes the history of losses, the individual situation of each customer and the economic group to which they belong, the collateral and guarantees and the legal advisors' opinion, and is considered sufficient to cover eventual losses on realization;

**c) Inventories** - are stated at the lower of market value and average production or purchase cost;

**d) Investments in subsidiary and associated companies** - are recorded on the equity method of accounting. The equity in the earnings or loss is recorded in an income statement account;

**e) Fixed assets** - are recorded at cost, net of depreciation. Depreciation is calculated on the straight-line basis, at the rates stated in Note 12, which take into consideration the estimated useful lives of the assets. Interest on financing obtained to finance construction in progress is added to the cost of the constructions;

**f) Deferred charges** - amortization is calculated on the straight-line basis at rates determined based on the production of the implemented projects in relation to their installed capacities;

**g) Financing** - are stated at the contract value plus the contracted charges, including interest and monetary or foreign exchange variations. Swap contracts, which are linked to the loan agreements, are classified together with the related loans;

**h) Income tax and social contribution on net income** - current and deferred income tax and social contribution on net income are calculated in conformity with current legislation;

**i) Other current and long-term assets and liabilities** - are recorded at their realizable amounts (assets) and at their known or estimated amounts plus accrued charges and indexation adjustments (liabilities), when applicable;

**j) Related parties** - loan agreements between Brazilian companies are restated by the weighted average interest rate for market funding. The agreements with foreign companies are restated by charges (LIBOR plus 3% p.a.) plus foreign exchange variation. Sales and purchases of inputs and products are made under terms and conditions similar to those of unrelated third parties;

**k) Determination of the results of operations** - the results of operations are determined on the accrual basis of accounting;

**l) Use of estimates** - the preparation of financial statements requires estimates to record certain assets, liabilities and other transactions. The Company's financial statements therefore include various estimates related to the useful lives of fixed assets, provisions necessary for contingent liabilities, for income tax and other similar matters. Actual results may differ from those estimated;

**m) Environmental investments** - expenses related to compliance with environmental regulations are considered as cost of production or capitalized when incurred; and

**n) Translation of foreign currency balances** - asset and liability balances of transactions in foreign currency are translated to local currency (R\$) at the foreign exchange rate in effect at the balance sheet date (2004 - US\$ 1.00 = R\$ 2.6544 and 2003 - US\$ 1.00 = R\$ 2.8892).

#### 4 - CONSOLIDATED FINANCIAL STATEMENTS

a) The consolidated financial statements at December 31, 2004 include the accounts of Gerdau Açominas S.A. and the directly controlled subsidiaries listed below:

CONSOLIDATED COMPANY	PERCENTAGE OWNERSHIP	SHAREHOLDERS' EQUITY
Margusa - Maranhão Gusa S.A. ....	100	73,714
Açominas Com. Imp. Exp. S.A.- Açotrading .....	100	22,583
Gerdau Açominas Overseas Ltd. ....	100	7,914
Florestal Itacambira S.A. ....	100	7,650

b) The more significant accounting practices used in preparing the consolidated financial statements are as follows:

I) Gerdau Açominas S.A. and its subsidiaries adopt consistent practices to record their operations and value their assets and liabilities. The financial statements of the subsidiary Gerdau Açominas Overseas Ltd. were translated using the exchange rate in effect at the balance sheet date and were adjusted to conform with accounting practices adopted in Brazil; and

II) Asset and liability, and income and expense accounts balances arising from transactions between consolidated companies have been eliminated.

c) The subsidiary Armafer Serviços de Construção Ltda. was merged on October 29, 2004 and the net assets of R\$ 44,744 were recorded in Gerdau Açominas S.A., replacing the investment account, without capital increase. The objectives of the transaction were to reduce administrative expenses and improve operating synergy.

d) The Company has goodwill which is being amortized in up to three years based on the realization of projected future results, as follows:

	AMORTIZATION PERIOD	COMPANY	CONSOLIDATED
<b>Goodwill in the investment account</b>			
Balance at December 31, 2003 .....		43,564	43,564
(-) Reversal of goodwill based on the adjustment in purchase price (Margusa - Maranhão Gusa S.A.) .....		(5,258)	(5,258)
(-) Amortization for the year.....	Up to 3 years	(13,578)	(13,578)
Balance at December 31, 2004 (based on expectation of future profitability) .....		<u>24,728</u>	<u>24,728</u>

The goodwill arises from the assets of the subsidiary Margusa - Maranhão Gusa S.A.

#### 5 - CASH AND CASH EQUIVALENTS

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Cash and banks .....	49,758	64,110	49,915	64,969
Financial investment fund .....	548,192	115,156	555,951	115,156
Fixed income securities .....	-	-	157,955	78,202
	<u>597,950</u>	<u>179,266</u>	<u>763,821</u>	<u>258,327</u>

Fixed income securities and financial investment fund include R\$ 165,369 - consolidated (R\$ 78,076 - consolidated in 2003) of investments in U.S. dollars.

#### 6 - TRADE ACCOUNTS RECEIVABLE

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Customers in Brazil.....	792,706	520,274	794,961	522,985
Brazilian export receivables .....	675,881	372,717	544,582	302,509
Provision for credit risks .....	(69,827)	(63,449)	(69,827)	(63,449)
	<u>1,398,760</u>	<u>829,542</u>	<u>1,269,716</u>	<u>762,045</u>

## 7 - INVENTORIES

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Finished products .....	542,924	356,825	547,126	357,180
Work in process .....	351,139	227,808	351,139	227,808
Raw materials .....	450,218	287,478	454,801	290,470
Storeroom materials .....	327,666	262,583	328,272	265,635
Advances to suppliers .....	60,181	38,270	60,726	38,452
	<u>1,732,128</u>	<u>1,172,964</u>	<u>1,742,064</u>	<u>1,179,545</u>

The inventories (company and consolidated) are covered against fire and overflow. Coverage is determined based on the amounts and the risks involved.

## 8 - TAX CREDITS

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Value-Added Tax on Sales and Services (ICMS) .....	94,547	87,636	97,207	88,631
Social Contribution on Revenues (COFINS) to offset .....	55,579	-	56,302	-
Social Integration Program (PIS) to offset .....	11,130	2,811	11,344	2,812
Excise Tax (IPI) .....	3,107	6,097	3,310	6,358
Income tax and social contribution on net income .....	2,222	90	4,843	115
Other .....	3,070	18	3,061	749
	<u>169,655</u>	<u>96,652</u>	<u>176,067</u>	<u>98,665</u>

## 9 - INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME

a) Analysis of the income tax and social contribution expense:

	COMPANY					
	2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL
<i>Profit before income tax and social contribution, after statutory</i>						
profit sharing .....	3,294,125	3,294,125	3,294,125	646,009	646,009	646,009
Statutory rates of tax .....	25%	9%	34%	25%	9%	34%
Income tax and social contribution expense at statutory rates .....	(823,531)	(296,471)	(1,120,002)	(161,502)	(58,141)	(219,643)
Tax effects on:						
- equity in earnings (losses) .....	2,598	935	3,533	1,615	581	2,196
- interest on equity .....	74,824	26,937	101,761	(150)	(54)	(204)
- recovery of deferred tax assets .....	141,864	48,109	189,973	305,724	117,027	422,751
- permanent differences (net) .....	20,337	(6,244)	14,093	(343)	(923)	(1,266)
Income tax and social contribution expense .....	<u>(583,908)</u>	<u>(226,734)</u>	<u>(810,642)</u>	<u>145,344</u>	<u>58,490</u>	<u>203,834</u>
Current .....	(447,281)	(162,899)	(610,180)	(103,857)	(38,347)	(142,204)
Deferred .....	(136,627)	(63,835)	(200,462)	249,201	96,837	346,038
	CONSOLIDATED					
	2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL
<i>Profit before income tax and social contribution, after statutory</i>						
profit sharing .....	3,301,598	3,301,598	3,301,598	646,027	646,027	646,027
Statutory rates of tax .....	25%	9%	34%	25%	9%	34%
Income tax and social contribution expenses at statutory rates .....	(825,400)	(297,144)	(1,122,544)	(161,507)	(58,142)	(219,649)
Tax effects on:						
- equity in earnings (losses) .....	(2,506)	(902)	(3,408)	(331)	(119)	(450)
- interest on equity .....	74,824	26,937	101,761	-	-	-
- recovery of deferred tax assets .....	141,864	48,109	189,973	305,724	117,027	422,751
- permanent differences (net) .....	21,844	(5,741)	16,103	1,471	(307)	1,164
Income tax and social contribution expense .....	<u>(589,374)</u>	<u>(228,741)</u>	<u>(818,115)</u>	<u>145,357</u>	<u>58,459</u>	<u>203,816</u>
Current .....	(452,402)	(164,774)	(617,176)	(103,962)	(38,395)	(142,357)
Deferred .....	(136,972)	(63,967)	(200,939)	249,319	96,854	346,173

IR - Corporate income tax.

CS - Social contribution on net income.

b) Analysis of the deferred income tax and social contribution assets and liabilities, at the statutory rates of tax:

	ASSETS											
	COMPANY									CONSOLIDATED		
	2004			2003			2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL
Income tax losses .....	228,735	-	228,735	273,713	-	273,713	230,165	-	230,165	275,506	-	275,506
Social contribution losses .....	-	52,403	52,403	-	83,867	83,867	-	53,060	53,060	-	84,662	84,662
Provision for contingencies .....	12,071	4,345	16,416	3,998	1,439	5,437	12,405	4,345	16,750	4,353	1,446	5,799
Commissions/other .....	6,221	2,239	8,460	4,038	1,453	5,491	6,221	2,239	8,460	4,038	1,453	5,491
Amortized goodwill .....	1,094	394	1,488	-	-	-	1,094	394	1,488	-	-	-
Provision for losses .....	77,931	28,055	105,986	84,799	30,528	115,327	77,931	28,055	105,986	84,799	30,528	115,327
	<u>326,052</u>	<u>87,436</u>	<u>413,488</u>	<u>366,548</u>	<u>117,287</u>	<u>483,835</u>	<u>327,816</u>	<u>88,093</u>	<u>415,909</u>	<u>368,696</u>	<u>118,089</u>	<u>486,785</u>
Current .....	245,685	58,505	304,190	72,362	26,050	98,412	245,685	58,505	304,190	72,362	26,050	98,412
Long-term .....	80,367	28,931	109,298	294,186	91,237	385,423	82,131	29,588	111,719	296,334	92,039	388,373

  

	LIABILITIES											
	COMPANY									CONSOLIDATED		
	2004			2003			2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL
Inflationary/exchange effect ...	115,934	33,971	149,905	19,790	-	19,790	115,934	33,971	149,905	19,790	-	19,790
Current .....	<u>115,934</u>	<u>33,971</u>	<u>149,905</u>	<u>19,790</u>	<u>-</u>	<u>19,790</u>	<u>115,934</u>	<u>33,971</u>	<u>149,905</u>	<u>19,790</u>	<u>-</u>	<u>19,790</u>

The tax benefits recognized on income tax and social contribution loss carryforwards, as well as on the provision for losses, both in the Company and consolidated, are supported by projections of future taxable income adjusted to present values, based on technical feasibility studies, approved by management. These studies, which consider the history of the Company's and its subsidiaries' profitability and the maintenance of the current profitability in the future, permitted the recognition of an additional benefit for the year of R\$ 189,973 (R\$ 422,751 in 2003) in the Company and consolidated, whose estimated recovery is shown in item "c" below. Other credits, based on temporary differences, mainly tax contingencies, were maintained according to their estimate of realization.

c) Estimated recovery of deferred income tax and social contribution assets:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Up to 2004 .....	-	98,412	-	98,412
2005 .....	304,190	93,101	304,190	93,101
2006 .....	22,128	84,086	22,128	86,411
2007 .....	16,979	83,905	19,284	84,178
2008 .....	25,367	76,707	25,367	77,059
2009 .....	10,947	20,377	11,063	20,377
2010 to 2012 .....	23,497	27,247	23,497	27,247
2013 to 2014 .....	10,380	-	10,380	-
	<u>413,488</u>	<u>483,835</u>	<u>415,909</u>	<u>486,785</u>

## 10 - COMPULSORY DEPOSITS AND OTHER

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Compulsory deposits .....	12,077	187	12,345	833
Receivables under contract .....	23,770	20,544	23,770	20,546
ICMS credits on purchases of fixed assets .....	69,992	32,722	69,992	32,730
Assets not for use .....	-	-	8,665	8,665
Income tax incentives .....	38	49	39	49
	<u>105,877</u>	<u>53,502</u>	<u>114,811</u>	<u>62,823</u>

11 - INVESTMENTS

	COMPANY									
	2004					2003				
	INVESTMENT	GERDAU AÇOMINAS OVERSEAS LTD.	FLORESTAL ITACAMBIRA S.A.	MARGUSA - MARANHÃO GUSA S.A.	ARMAFER - SERV. CONSTR. LTDA. <sup>2</sup>	OTHER INVESTMENT	OTHER	TOTAL	TOTAL	TOTAL
Opening balance .....	22,592	7,504	7,211	53,248	43,564	41,470	17,977	197,463	29,870	197,463
Merger/capitalization .....	-	-	-	-	-	(47,066)	32	(47,034)	108,921	(47,034)
Reversal of goodwill .....	-	-	-	-	(5,258)	-	-	(5,258)	52,814	(5,258)
Acquisition .....	-	-	-	-	-	-	78	78	-	78
Sale .....	-	-	-	-	-	-	(4,294)	(4,294)	-	(4,294)
Equity in earnings (losses) <sup>1</sup> .....	(9)	410	576	25,643	(13,578)	(3,030)	379	10,391	6,458	10,391
Deposit for future capital increase .....	-	-	(137)	(5,176)	-	8,626	-	8,639	-	8,639
Dividends.....	-	-	-	-	-	-	(300)	(5,613)	(600)	(300)
Closing balance .....	22,583	7,914	7,650	73,715	24,728	-	13,872	154,372	197,463	154,372
Capital .....	17,689	133	5,790	10,702	-	-	-	-	-	-
Shareholders' equity .....	22,583	7,914	7,650	73,714	-	-	-	-	-	-
Net income (loss) for the year .....	(9)	1,019	575	21,860	(3,030)	-	-	-	-	-
Percentage of interest (%) .....	100%	100%	100%	100%	-	-	-	-	-	-
Common shares/quotas held.....	400,000	50,000	158,985	8,615,249	-	-	-	-	-	-
Preferred shares held .....	-	-	-	2,086,310	-	-	-	-	-	-

<sup>1</sup> Includes amortization of goodwill.

<sup>2</sup> Company merged on October 29, 2004.

	CONSOLIDATED			
			2004	2003
	INVESTMENT	GOODWILL	TOTAL	TOTAL
Margusa - Maranhão Gusa S.A. ....	-	24,728	24,728	43,564
MRS Logística S.A. ....	4,772	-	4,772	4,772
Corporate joint ventures .....	10,036	-	10,036	9,984
Other investments .....	4,133	-	4,133	8,318
	<u>18,941</u>	<u>24,728</u>	<u>43,669</u>	<u>66,638</u>

## 12 - FIXED ASSETS

	ANNUAL DEPRECIATION RATE - %	COMPANY			
				2004	2003
		COST	ACCUMULATED DEPRECIATION AND DEPLETION	NET	NET
Land, buildings and structures .....	0 to 4	2,385,691	(944,679)	1,441,012	1,508,988
Machinery, equipment and installations.....	10	4,571,194	(2,213,718)	2,357,476	2,126,167
Furniture and fixtures .....	10	60,572	(36,584)	23,988	25,110
Vehicles.....	20	22,848	(18,581)	4,267	4,368
Electronic data equipment/rights/licenses .....	20	266,201	(177,950)	88,251	85,268
Construction in progress .....	-	863,195	-	863,195	582,748
Forestation/reforestation.....	Feeling plan	123,431	(34,950)	88,481	64,471
		<u>8,293,132</u>	<u>(3,426,462)</u>	<u>4,866,670</u>	<u>4,397,120</u>

	ANNUAL DEPRECIATION RATE - %	CONSOLIDATED			
				2004	2003
		COST	ACCUMULATED DEPRECIATION AND DEPLETION	NET	NET
Land, buildings and structures .....	0 to 4	2,403,143	(946,302)	1,456,841	1,529,014
Machinery, equipment and installations .....	10	4,586,568	(2,220,908)	2,365,660	2,160,821
Furniture and fixtures .....	10	60,657	(36,827)	23,830	25,367
Vehicles.....	20	23,561	(18,797)	4,764	4,495
Electronic data equipment/rights/licenses .....	20	266,217	(178,003)	88,214	86,383
Construction in progress .....	-	863,704	-	863,704	600,647
Forestation/reforestation.....	Feeling plan	156,672	(34,950)	121,722	97,711
		<u>8,360,522</u>	<u>(3,435,787)</u>	<u>4,924,735</u>	<u>4,504,438</u>

**a) Insured amounts** - the assets are insured against fire, electrical damage and explosion. The coverage is determined based on the risks involved. The Ouro Branco plant has coverage for loss of profits.

**b) Capitalization of interest and financial charges** - R\$ 1,084 was capitalized during the year - Company and consolidated ((R\$ 16,715) - Company and consolidated in 2003).

**c) Guarantees offered** - fixed assets were pledged as collateral for loans and financing in the amount of R\$ 371,494 - Company and consolidated (R\$ 249,924 - Company and consolidated in 2003).

d) Summary of changes in fixed assets:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Balance at the beginning of the year.....	4,397,120	2,825,208	4,504,438	2,825,208
( + ) Purchases/sales for the year.....	905,549	387,067	912,003	389,090
( + ) Company merger .....	48,772	-	-	-
( - ) Depreciation and depletion in cost of sales .....	(423,312)	(131,180)	(430,213)	(132,352)
( - ) Depreciation and depletion in administrative expenses.....	(61,459)	(16,028)	(61,493)	(16,033)
( - ) Revaluation reversal .....	-	(365,347)	-	(365,347)
( + ) Operational integration with Gerdau .....	-	1,697,400	-	1,791,555
( + ) Companies consolidated in the year .....	-	-	-	12,317
Balance at the end of the year.....	<u>4,866,670</u>	<u>4,397,120</u>	<u>4,924,735</u>	<u>4,504,438</u>

### 13 - DEFERRED CHARGES

Deferred charges (Company and consolidated) comprise pre-operating expenses with reforestation, research, development and restructuring projects.

### 14 - FINANCING

Financing are represented as follows:

	ANNUAL CHARGES	COMPANY		CONSOLIDATED	
		2004	2003	2004	2003
<b>CURRENT</b>					
Working capital financing (R\$) .....	8.00% to 14.00%	523	48,173	1,173	48,173
Fixed asset financing (R\$) .....	12.00%	-	3,054	-	3,054
Investment financing (R\$) .....	CDI	4,500	4,500	4,500	4,500
Investment financing (US\$) .....	US\$	1,387	45,649	1,387	45,649
Working capital financing (US\$) .....	1.36% to 10.50%	267,797	921,803	284,601	925,847
Fixed asset financing and others (US\$) .....	US\$	-	2,912	-	5,082
Current portion of long-term financing .....		<u>603,406</u>	<u>863,501</u>	<u>603,406</u>	<u>866,671</u>
		877,613	1,889,592	895,067	1,898,976
<b>LONG-TERM</b>					
Working capital financing (R\$) .....	10.02%	28,215	3,812	28,215	3,812
Fixed asset financing and others (R\$) .....	4.00% to 9.90%	599,817	554,153	603,272	569,124
Investment financing (R\$) .....	IGPM + 8.5%	29,045	35,019	29,045	35,019
Fixed asset financing and others (US\$) .....	3.09% to 6.00%	619,884	616,837	619,884	616,837
Working capital financing (US\$) .....	2.95% to 7.34%	1,406,166	1,066,385	1,406,166	1,066,385
(-) Current portion .....		<u>(603,406)</u>	<u>(863,501)</u>	<u>(603,406)</u>	<u>(866,671)</u>
		<u>2,079,721</u>	<u>1,412,705</u>	<u>2,083,176</u>	<u>1,424,506</u>
Total financing .....		<u>2,957,334</u>	<u>3,302,297</u>	<u>2,978,243</u>	<u>3,323,482</u>

CDI - Certificate of Interbank Deposit interest rate.

IGPM - General Market Price Index.

Summarized by currency:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Brazilian real (R\$) .....	662,100	648,711	666,205	663,682
U.S. dollar (US\$) .....	2,295,234	2,653,586	2,312,038	2,659,800
	<u>2,957,334</u>	<u>3,302,297</u>	<u>2,978,243</u>	<u>3,323,482</u>

The schedule for payment of the long-term portion of financing is as follows:

	COMPANY	CONSOLIDATED
In 2006 .....	462,261	462,889
In 2007 .....	511,326	511,954
In 2008 .....	522,084	522,712
In 2009 .....	281,148	281,776
In 2010 .....	168,086	168,715
After 2010 .....	134,816	135,130
	<u>2,079,721</u>	<u>2,083,176</u>

#### a) Events during the year

On June 3, 2004, the Company concluded the placement of the second tranche, of US\$ 128 million (equivalent to R\$ 339,763 at December 31, 2004), related to a US\$ 400 million Export Notes Receivable program (equivalent to R\$ 1,061,760 at December 31, 2004). This joint program with Gerdau S.A. has an interest rate of 7.321% p.a., maturity in April 2012, a grace period of two years and quarterly amortization as from July 2006.

#### b) Guarantees

The loans contracted under the FINAME/BNDES program are guaranteed by the financed assets, in the amount of R\$ 180,109. The other loans are guaranteed by sureties from the controlling shareholders, on which the Company pays a fee of 1% p.a. on the amount guaranteed.

#### c) Covenants

In replacement of the tangible guarantees usually required, the loans are being contracted with certain financial covenants, as follows:

- I) Consolidated interest coverage ratio - measures the debt service payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization);
- II) Consolidated leverage ratio - measures the debt coverage capacity in relation to EBITDA;
- III) Required Minimum Net Worth - measures the minimum net worth required in financial agreements; and
- IV) Current Ratio (current liquidity ratio) - measures the capacity to comply with short-term obligations.

All the covenants mentioned above are calculated on a consolidated basis of the parent company Gerdau S.A., except for item IV which refers to the parent company Metalúrgica Gerdau S.A., and have been observed. The penalty for non-compliance is the prepayment of the contracts.

## 15 - FINANCIAL INSTRUMENTS

a) **General comments** - Gerdau Açominas S.A. and its subsidiaries enter into transactions involving financial instruments, the risks of which are managed through financial positions and exposure limit controls. All instruments are fully recorded in the books of account and mainly relate to the instruments listed below:

- **financial investments** - are recorded at their market value as of the balance sheet date and are explained and presented in Note 5;
- **investments** - are explained and presented in Note 11;
- **related parties** - are explained and presented in Note 19;
- **financing** - are explained and presented in Note 14; and
- **financial derivatives** - in order to minimize the effects of fluctuations in foreign exchange rates on its liabilities, the Company entered into swap contracts that were converted into Brazilian reais on the contract date and linked to changes in the CDI rate. The swap contracts are listed below:

CONTRACT DATE	PURPOSE	AMOUNT US\$ THOUSAND	COMPANY AND CONSOLIDATED	
			RATE	MATURITY
07/16/2001 to 05/07/2002	Prepayment	32,823	85.55% to 100.00% of the CDI	01/13/2005 to 03/01/2006
02/20/2002	Resolution 2770	54,000	106.00% of the CDI	06/20/2005
02/19/2003	Resolution 4131	3,300	85.70% of the CDI	02/04/2005

b) **Market value** - the market values of the financial instruments are as follows:

	COMPANY			
	2004		2003	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Financial investments .....	548,192	548,192	115,156	115,156
Eurobonds.....	-	-	370,342	370,956
Securitization financing .....	627,908	627,908	303,282	303,282
Import financing .....	619,883	619,883	377,534	383,941
Prepayment financing .....	808,983	804,724	807,385	818,786
Financing - Resolution 2770.....	263,060	256,585	365,573	390,235
ACC (Advances on Export Contracts) financing .....	27,088	27,088	500,118	524,935
Financing - Resolution 4131 .....	20,893	20,755	24,243	24,468
Other financing.....	589,519	589,520	553,820	573,067
Investments.....	154,372	154,372	197,463	197,463
Related parties (assets) .....	8,178	8,178	-	-
Related parties (liabilities) .....	-	-	138,309	138,309

  

	CONSOLIDATED			
	2004		2003	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Financial investments .....	713,906	713,906	193,358	193,358
Eurobonds.....	-	-	370,342	370,956
Securitization financing .....	627,908	627,908	303,282	303,282
Import financing .....	619,883	619,883	377,534	383,941
Prepayment financing .....	808,983	804,724	807,385	818,786
Financing - Resolution 2770.....	263,060	256,585	365,573	390,235
ACC financing .....	43,891	43,891	500,118	524,935
Financing - Resolution 4131 .....	20,893	20,755	24,243	24,468
Other financing.....	593,625	593,625	575,005	594,251
Investments.....	43,669	43,669	66,638	66,638
Related parties (assets) .....	21,804	21,804	-	-
Related parties (liabilities) .....	-	-	125,320	125,320

The market values of swap contracts were obtained based on future income projections for each contract, calculated based on the present value of the forward U.S. dollar + coupon rates (assets) and CDI future rates (liabilities) and adjusted to present value on the balance sheet date, using the projected future CDI rate for each maturity. Swap contracts related to financing contracts are classified together with the related financing, as a contra entry to the "Financial expenses/income, net" account, and are stated at cost plus accrued charges up to the balance sheet date.

The Company believes that the balances of the other financial instruments, which are recognized in the books at the net contracted values, are substantially similar to those that would be obtained if they were negotiated in the market. However, because the markets for these instruments are not active, differences could exist if they were settled in advance.

**c) Risk factors that could affect the Company's business**

**Price risk:** this risk is related to the possibility of price variations of the products that the Company sells or in the raw material prices and other inputs used in the production process. Since the Company operates in a commodity market, its sales revenues and cost of sales may be affected by the changes in the international prices of its products or materials. In order to minimize this risk, the Company constantly monitors the price variations in the local and international markets.

**Interest rate risk:** this risk arises as a result of the possibility of losses (or gains) due to fluctuations in interest rates relating to Company assets (investments) and liabilities. In order to minimize possible impacts resulting from interest rate fluctuations, the Company has adopted a policy of diversification, alternating between fixed rates and variable rates (such as LIBOR and the CDI) and periodically renegotiates contracts to adjust them to market.

Exchange rate risk: this risk is related to the possibility of fluctuations in foreign exchange rates affecting financial expenses (or income) and the liability (or asset) balance of contracts denominated in a foreign currency. In order to manage the effects of these fluctuations, the Company uses "hedge" instruments, usually swap contracts, as described in item "a" above.

Credit risk: this risk arises from the possibility of the Company not receiving amounts arising from sales or credit instruments at financial institutions. In order to minimize this risk, the Company adopts the procedure of analyzing in detail the financial and equity position of its customers, establishing a credit limit and constantly monitoring their balances. In relation to financial investments, the Company invests solely in institutions with low credit risk, as assessed by rating agencies. In addition, each institution has a maximum limit for investment, determined by the Company's Credit Committee.

## 16 - FINANCIAL EXPENSES/INCOME, NET

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
<b>Financial income</b>				
Financial investments .....	45,684	42,239	46,699	43,962
Interest received .....	31,265	3,934	29,025	3,962
Monetary variations - assets.....	2,410	2,351	2,842	2,351
Foreign exchange variations - assets .....	(35,422)	(81,329)	(34,756)	(81,329)
Other financial income .....	37,380	1,958	38,554	2,002
Total financial income .....	<u>81,317</u>	<u>(30,847)</u>	<u>82,364</u>	<u>(29,052)</u>
<b>Financial expenses</b>				
Interest on debt.....	(180,450)	(79,159)	(180,231)	(79,356)
Monetary variations - liabilities .....	(18,058)	(4,143)	(18,464)	(4,279)
Foreign exchange variations - liabilities .....	220,309	274,937	220,342	274,991
Foreign exchange swap - liabilities .....	(40,741)	(275,736)	(40,741)	(275,736)
Other financial expenses.....	(40,397)	(9,726)	(38,435)	(9,793)
Total financial expenses .....	<u>(59,337)</u>	<u>(93,827)</u>	<u>(57,529)</u>	<u>(94,173)</u>

## 17 - TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Income tax and social contribution on net income .....	138,762	21,792	141,983	21,945
Social charges on payroll .....	46,208	46,759	46,380	47,591
Value-added tax on sales and services (ICMS) .....	32,129	12,563	32,131	12,897
Social contribution on revenues (COFINS) .....	32,485	13,800	32,512	13,904
Excise tax (IPI).....	14,114	2,912	14,114	2,966
Social Integration Program (PIS) .....	6,659	3,575	6,666	3,607
Income tax and social contribution withheld at source .....	6,892	2,937	6,912	3,096
Other .....	10,254	1,025	10,408	1,120
	<u>287,503</u>	<u>105,363</u>	<u>291,106</u>	<u>107,126</u>

## 18 - PROVISION FOR CONTINGENCIES

The Company and its subsidiaries are parties in labor, civil, and tax processes. Based on the opinion of its legal advisors, management believes that the provision for contingencies is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and the final decisions will not have significant effects on the financial position of the Company at December 31, 2004.

The balances of the contingencies are as follows:

### l) Contingent liabilities provided

		COMPANY		CONSOLIDATED	
		2004	2003	2004	2003
<b>A) TAX CONTINGENCIES</b>					
Social contribution on net income.....	(a.1)	-	31,660	-	31,660
Corporate income tax .....	(a.1)	-	80,887	-	80,887
Emergency Capacity Charge .....	(a.2)	16,195	743	16,195	768
Extraordinary Tariff Recomposition .....	(a.2)	7,754	522	7,754	564
ICMS .....	(a.3)	16,201	13,248	16,201	13,248
INSS .....	(a.4)	11,937	4,418	11,937	4,418
FGTS and other tax contingencies .....	(a.5)	1,198	1,273	1,198	1,392
( - ) Judicial deposits.....	(a.6)	<u>(39,012)</u>	<u>(118,252)</u>	<u>(39,012)</u>	<u>(118,326)</u>
		14,273	14,499	14,273	14,611
<b>B) LABOR CONTINGENCIES</b>					
( - ) Judicial deposits.....	(b.1)	33,316	13,352	33,316	13,352
	(b.2)	<u>(1,964)</u>	<u>(1,959)</u>	<u>(1,964)</u>	<u>(1,959)</u>
		31,352	11,393	31,352	11,393
<b>C) CIVIL CONTINGENCIES</b>					
( - ) Judicial deposits.....	(c.1)	7,575	6,704	7,575	6,704
	(c.2)	<u>(1,207)</u>	<u>(1,063)</u>	<u>(1,207)</u>	<u>(1,063)</u>
		6,368	5,641	6,368	5,641
Total liabilities provided .....		<u>51,993</u>	<u>31,533</u>	<u>51,993</u>	<u>31,645</u>

INSS (National Institute of Social Security).  
FGTS (Government Severance Indemnity Fund for Employees).

#### a) Tax Contingencies

**a.1)** Considering the many legal decisions unfavorable to the unconstitutionality of the limitation of the offset of income tax and social contribution loss carryforwards to 30% of net income, the Company decided to no longer deposit in court the amounts related to the matter and requested, in the court injunction records in which it is the petitioner, the conversion of the amounts deposited in court (R\$ 338,992) into tax payments, and started observing the legal limitation. The legal challenge has been maintained; however, in the event the STF reviews its current guidance and the Company is successful, it will plead the offset of the amounts overpaid.

**a.2)** R\$ 16,195 (Company and consolidated) relating to the Emergency Capacity Charge (ECE), as well as R\$ 7,754 (Company and consolidated) related to the Extraordinary Tariff Recomposition (RTE), included in the electric energy bills of the Company's plants. According to the Company, these charges are of a tax nature and, as such, are incompatible with the National Tax System provided in the Federal Constitution. For this reason, the constitutionality of this charge is being challenged in court. The lawsuits are in progress in the Federal Justice of the First Instance of the states of Pernambuco, Ceará, Minas Gerais, Rio de Janeiro, São Paulo, Paraná, and Rio Grande do Sul, as well as in the Federal Regional Courts of the 1<sup>st</sup> and 2<sup>nd</sup> Regions. The Company has fully deposited in court the amount of the disputed charges.

**a.3)** R\$ 16,201 (Company and consolidated) relating to amounts for Value-added tax on sales and services (ICMS), the majority of which relates to credit rights involving the Finance Secretariat and the State Courts of the First Instance in the state of Minas Gerais.

**a.4)** R\$ 11,937 (Company and consolidated) refers to lawsuits questioning the position of the National Institute of Social Security (INSS) in terms of charging INSS contributions on profit sharing payments made by the Company, as well as on payments for services rendered by third parties, in which the Institute calculated charges for the last ten years and assessed the Company because it understands that the Company is jointly liable. The assessments were maintained at the administrative level, and the Company filed annulment actions with the judicial deposits of the related amounts, based on the understanding that the rights to assess part of the charge had prescribed and that there is no such liability.

**a.5)** R\$ 1,198 (Company and consolidated) relating to a lawsuit regarding the Government Severance Indemnity Fund for Employees (FGTS) increased charges, which arose from the changes introduced by Complementary Law 110/01. Currently, the corresponding court injunction is awaiting the judgment of the extraordinary appeal filed by the Company. The amount provided is fully deposited in court.

**a.6)** The judicial deposits, representing restricted assets of the Company, relate to amounts deposited and maintained in court until the resolution of the related legal matters. The balances of these credits, which at December 31, 2004 amounted to R\$ 39,012 (Company and consolidated), are classified as a reduction of the provision for tax contingencies recorded in the books.

#### b) Labor Contingencies

**b.1)** The Company is also defending labor claims, for which there is a provision of R\$ 33,316 at December 31, 2004 (Company and consolidated). None of these claims refer to individually significant amounts, and the lawsuits mainly involve claims for overtime pay, health hazards and risk premium, among others.

**b.2)** The balances of the deposits in court, which totaled R\$ 1,964 at December 31, 2004 (Company and consolidated), are classified as a reduction of the provision for labor contingencies.

### **c) Civil Contingencies**

**c.1)** The Company is also defending in court civil claims arising in the normal course of its operations, including at December 31, 2004 claims arising from work accidents totaling R\$ 7,575 (Company and consolidated) as contingent liability for these claims.

**c.2)** At December 31, 2004, the balances of deposits in court totaled R\$ 1,207 (Company and consolidated) and are classified as a reduction of the provision for contingencies.

## **II) Contingent liabilities not provided**

### **a) Tax Contingencies**

**a.1)** Gerdau Açominas S.A. is defendant in an assessments filed by the state of Minas Gerais, as well as the petitioner of an annulment action, relating to the export of semi-finished manufactured products. The total amount demanded is R\$ 225,486. The Company has not recorded any provision for contingency in relation to these claims since it considers this tax is not payable because the products cannot be considered semi-finished manufactured products as defined by the federal complementary law and, therefore, are not subject to ICMS.

**a.2)** Also, R\$ 68,431 are being demanded due to the understanding of the Federal Revenue Secretariat that the transactions carried out by the Company, under the drawback concession granted by DECEX, were not in conformity with the legislation. The Company filed a preliminary administrative defense of the legality of the arrangement, which is pending judgment. Since the tax liability has not been definitely established, and considering that the arrangement which originated the demand conforms with the assumptions required for the drawback concession, and also that the concession was granted after analysis by the legal administrative authority, the Company considers an unfavorable outcome to be remote and, for this reason, has not recorded any provision for the contingency.

### **b) Civil Contingencies**

**b.1)** A civil lawsuit filed against Gerdau Açominas S.A. regarding the termination of a contract for the supply of slag and indemnities for losses and damages. At December 31, 2004, the lawsuit amounts to approximately R\$ 37,014.

Gerdau Açominas S.A. contested all bases for the lawsuit and filed a counterclaim for termination of the contract and indemnity for breach of contract.

The judge declared the contract to be terminated, since this demand was common to both parties. With regards to the remaining discussion, the judge understood that both parties were at fault and judged the requests for indemnity unfounded. This decision was maintained by the Court of Civil Appeals of the State of Minas Gerais (TAMG), and the court decision is based on expert evidence and interpretation of the contract. The process was in the High Court of Justice (STJ), and returned to the TAMG for judgment of the appeal requesting clarification of the decision.

The Company believes that any loss from the case is remote, since it understands that a change in the judgment is unlikely.

**b.2)** A civil lawsuit filed by Sul America Cia Nacional de Seguros against the Company and Banco Westdeutsche Landesbank Girozentrale, New York Branch (WestLB), for the payment of R\$ 34,383 to settle an indemnity claim, which has been deposited in court. The insurance company pleads doubt in relation to whom payment should be made and alleges that the Company is resisting in receiving and settling it. The lawsuit was contested both by the Bank (which claims having no right over the amount deposited, which resolves the doubt raised by Sul América) and by the Company (which claims that there is no such doubt and that there is 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, which matter is already settled, which resulted in the withdrawal in December 2004 of the amount deposited. The process should enter the expert evidence phase, mainly for calculation of the amount due. Based on the opinion of its legal advisors, the Company expects loss to be 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 lawsuit for payment of the amount recognized by the insurance companies. The lawsuits are pending. The Company 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 mill, which resulted in the stoppage of several activities, with material damages to the steel mill equipment and loss of profits. The equipment, as well as the loss of profits arising from the accident, were covered by an insurance policy. The report on the event, as well as the loss claim, was filed with IRB - Brasil Resseguros S.A., and an advance payment of R\$ 62,000 was received in 2002.

In 2002, a preliminary and conservative estimate of indemnities related to the coverage of loss of profits and material damages, in the total amount of approximately R\$ 110,000, 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 amount received plus the amount proposed by the insurance company as a complement to settle the indemnity. Subsequently, new amounts were added to the discussion, as stated in the Company's plea, although not yet recorded.

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

## **III) Contingent assets not recorded**

### **a) Tax Contingencies**

The Company and its subsidiary Margusa - Maranhão Gusa S.A. expect to recover IPI premium credits. Margusa Maranhão Gusa S.A. has filed an administrative appeal, which is pending judgment. The Company has filed an injunction requesting the return of credits, which was judged unfavorably. Currently, the process awaits judgment of the appeal filed by the Company. The Company estimates the credits at R\$ 145,786 (Company) and R\$ 160,365 (consolidated) but no accounting recognition has been made thereof because of the uncertainty as to their realization.

## 19 - RELATED PARTIES

### a) Analysis of loan balances

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Gerdau S.A. ....	51,245	22,606	51,245	22,606
Fundação Gerdau.....	1,304	16,795	1,304	16,795
Armafer Serviços de Construção Ltda. ....	-	652	-	-
Seiva S.A. - Florestas e Indústrias .....	220	1,657	220	1,657
GTL Brasil Ltda. ....	-	5,958	-	5,958
Florestal Rio Largo Ltda. ....	(8,302)	(4,676)	(8,302)	(4,676)
Metalúrgica Gerdau S.A. ....	381	(3,390)	381	(3,390)
Açominas Com. Imp. e Export. S.A. - Açotrading .....	(13,912)	(13,921)	-	-
GTL Financial Corp. ....	-	(173,885)	-	(173,885)
Gerdau Internacional Empreend Ltda. ....	(23,556)	(7)	(23,556)	(7)
Sipar Aceros S.A. and other .....	798	9,902	512	9,622
TOTAL .....	<u>8,178</u>	<u>(138,309)</u>	<u>21,804</u>	<u>(125,320)</u>
Financial income (expenses) .....	41	2,840	(1,017)	2,845

### b) Commercial transactions

	COMPANY - 2004			COMPANY - 2003		
	SALES	INCOME/ EXPENSES	ACCOUNTS RECEIVABLE	SALES	PURCHASES/ EXPENSES	ACCOUNTS RECEIVABLE
Gerdau S.A. ....	-	-	-	193,020	(5,112)	-
Açominas Overseas Ltd. (*) .....	3,633,608	-	671,485	1,711,861	-	352,549
Armafer Serviços de Construção Ltda. ....	256	-	-	42	-	114
Gerdau Laisa S.A. ....	62	-	116	-	-	116
Gerdau Ameristeel Corporation .....	-	-	-	10,506	-	-
Sipar Aceros S.A. ....	11	-	-	14,337	-	7,509
Gerdau AZA.S.A. ....	565	-	105	-	-	-
Indac - Ind. Adm. e Comércio S.A. (**) .....	-	(8,154)	-	-	(624)	-

(\*) Transactions carried out due to securitization operations.  
(\*\*) Payments of guarantees of loans.

**c) Guarantees granted** - The Company is the guarantor of vendor loan agreements of the associated company Banco Gerdau S.A., in the total amount of R\$ 68,138 at December 31, 2004.

## 20 - POST-EMPLOYMENT BENEFITS

Considering all types of benefits to employees granted by the Company, the asset and liability positions at December 31 are as follows:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Retirement and discharge benefits payable .....	<u>6,418</u>	<u>7,794</u>	<u>6,418</u>	<u>7,794</u>
Total liabilities.....	<u>6,418</u>	<u>7,794</u>	<u>6,418</u>	<u>7,794</u>
Unrecognized actuarial assets .....	<u>161,240</u>	<u>121,862</u>	<u>161,240</u>	<u>121,154</u>

### a) Pension plan - defined benefit

The Company and its subsidiaries are the co-sponsors of defined benefit pension plans that cover substantially all employees ("Açominas Plan" and "Gerdau Plan").

The Açominas Plan is managed by Fundação Açominas de Seguridade Social - Aços, a closed supplementary pension entity to complement the social security benefits of employees and retired employees of the Ouro Branco unit. The assets of the Açominas Plan mainly comprise investments in bank deposit certificates, federal public securities, marketable securities and properties.

The Gerdau Plan is managed by Gerdau - Sociedade de Previdência Privada, a closed supplementary pension entity to complement the social security benefits of employees and retired employees of the other units of Gerdau Açominas S.A. The assets of the Gerdau Plan comprise investments in bank deposit certificates, federal public securities and marketable securities.

The sponsors' contributions to these pension plans were R\$ 12,911 in 2004 and R\$ 8,784 in 2003 for the Company and R\$ 12,957 in 2004 and R\$ 8,828 in 2003 consolidated.

Current expenses of the defined pension plan are as follows:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Cost of current service.....	20,364	11,365	20,511	11,443
Interest cost.....	64,749	34,200	65,213	34,287
Expected return of plan assets.....	(104,382)	(51,170)	(105,145)	(51,220)
Amortization of (gain) loss.....	(3,157)	(873)	(3,224)	(873)
Employees' expected contribution.....	(4,383)	(3,576)	(4,383)	(3,576)
Pension plan cost (benefit), net.....	<u>(26,809)</u>	<u>(10,054)</u>	<u>(27,028)</u>	<u>(9,939)</u>

The reconciliation of the assets and liabilities of the plans is presented below:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Total liabilities.....	(620,166)	(527,213)	(620,166)	(527,977)
Fair value of plan assets.....	<u>873,050</u>	<u>771,482</u>	<u>873,050</u>	<u>771,985</u>
Net assets.....	252,884	244,269	252,884	244,008
Unrecognized (gains) losses.....	(102,021)	(122,407)	(102,021)	(122,754)
Past service costs.....	<u>10,377</u>	-	<u>10,377</u>	-
Total assets, net.....	<u>161,240</u>	<u>121,862</u>	<u>161,240</u>	<u>121,254</u>

Changes in plan assets and actuarial liabilities were as follows:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Changes in benefit liabilities				
Benefit liabilities at the beginning of the year.....	527,213	333,903	527,977	334,756
Cost of service.....	20,364	11,365	20,511	11,443
Interest cost.....	64,749	34,200	65,213	34,287
Actuarial loss.....	11,474	57,198	10,962	56,944
Payment of benefits.....	(14,874)	(12,474)	(14,874)	(12,474)
Past service costs due to changes in the plan.....	10,171	-	10,377	-
Effect of merger/operational integration.....	<u>1,069</u>	<u>103,021</u>	-	<u>103,021</u>
Benefit liabilities at the end of the year.....	<u>620,166</u>	<u>527,213</u>	<u>620,166</u>	<u>527,977</u>

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Changes in plan assets				
Fair value of plan assets at the beginning of the year.....	771,482	499,627	771,985	500,079
Return on plan assets.....	97,530	120,249	97,780	120,256
Sponsor contributions.....	12,911	8,784	12,957	8,828
Participant contributions.....	5,202	4,232	5,202	4,232
Payment of benefits.....	(14,874)	(12,474)	(14,874)	(12,474)
Effect of merger/operational integration.....	<u>799</u>	<u>151,064</u>	-	<u>151,064</u>
Fair value of plan assets at the end of the year.....	<u>873,050</u>	<u>771,482</u>	<u>873,050</u>	<u>771,985</u>

As a result of the operational integration on November 28, 2003, the assets and liabilities of the Gerdau Plan, related to the employees transferred to Gerdau Açominas S.A., were allocated to the Açominas Plan, and the Supplementary Social Security Secretariat approved the addition of Gerdau Açominas S.A. as a sponsor of the Retirement and Supplementary Retirement Plans managed by Gerdau - Sociedade de Previdência Privada.

The method for calculating the actuarial liability is the Projected Unit Credit Method, as determined by CVM Deliberation 371/2000.

The amount of the actuarial gains and losses to be recognized as income or expense is the unrecognized amount that exceeds, in each period, the higher of the following limits: (i) 10% of the present value of the total actuarial liability of the defined benefit plan and (ii) 10% of the fair value of the plan assets. The resulting amount will be amortized annually based on the average remaining years of service estimated for the employees that participate in the plan.

The table below shows a summary of the assumptions made to calculate and record the defined benefit plan for both the Company and consolidated:

	GERDAU PLAN	AÇOMINAS PLAN
Average discount rate .....	11.30%	11.30%
Increase in compensation .....	9.20%	8.675%
Expected rate of return on assets .....	12.35%	12.35%
Mortality chart .....	GAM 83 (-1 year)	AT-83
Disabled mortality chart.....	RRB 1944	AT-83
Turnover rate.....	Based on service and salary level	Null

#### b) Pension plan - defined contribution

The Company and its subsidiaries are also the co-sponsors of a defined contribution pension plan administered by Gerdau - Sociedade de Previdência Privada. Contributions are based on a percentage of the compensation of employees. The total cost of this plan was R\$ 2,661 in 2004 and R\$ 181 in 2003 for the Company and R\$ 2,682 in 2004 and R\$ 195 in 2003 consolidated.

#### c) Other post-employment benefits

The Company estimates that the amounts payable to executives on their retirement or discharge totals R\$ 6,418 (Company and consolidated at December 31, 2004, (R\$ 7,794 in 2003 - Company and consolidated).

### 21 - SHAREHOLDERS' EQUITY

**a) Capital** - authorized capital at December 31, 2004 comprises 200,000,000 common shares (200,000,000 at December 31, 2003) and 200,000,000 preferred shares (100,000,000 at December 31, 2003), with no par value.

At December 31, 2004, 158,633,709 common shares (158,633,709 at December 31, 2003) and 17,798 preferred shares (17,798 at December 31, 2003) are subscribed and paid-up, totaling R\$ 2,340,576 (R\$ 2,340,576 at December 31, 2003). Preferred shares do not have voting rights and cannot be redeemed, but have the same rights as common shares in terms of profit sharing.

**b) Interest on equity and dividends** - the Company calculated interest on equity in accordance with the terms established by Law 9249/95. The corresponding amount was recorded as financial expenses for tax purposes. For presentation purposes, this amount was recorded as dividends, not affecting net income. The related tax benefit through the reduction of the income tax and social contribution on net income charge for the year was R\$ 101,761. Shareholders are entitled to receive, each year, a minimum mandatory dividend of 30% of adjusted net income.

The amount of interest on equity and dividends credited for the year was R\$ 938,662, shown as follows:

	2004	2003
Net income for the year .....	2,483,483	849,843
Realization of revaluation reserve .....	-	7,395
Transfer to legal reserve .....	(124,174)	(42,492)
Adjusted net income .....	<u>2,359,309</u>	<u>814,746</u>

DISTRIBUTIONS DURING THE YEAR						
PERIOD	NATURE	R\$/SHARE	CREDIT	PAYMENT	2004	2003
1 <sup>st</sup> quarter .....	Interest	0.48	03/30/2004	05/18/2004	75,915	-
	Dividends	0.17	03/30/2004	05/18/2004	27,288	-
2 <sup>nd</sup> quarter .....	Interest	0.47	06/30/2004	08/17/2004	74,884	-
	Dividends	0.85	06/30/2004	08/17/2004	134,536	-
3 <sup>rd</sup> quarter .....	Interest	0.94	07/31/2004	11/17/2004	148,498	-
	Dividends	1.08	11/03/2004	11/17/2004	171,344	-
4 <sup>th</sup> quarter .....	Dividends	1.93	02/11/2005	02/22/2005	<u>306,197</u>	<u>283,986</u>
Interest on equity and dividends .....					<u>938,662</u>	<u>283,986</u>
% interest/dividends paid or credited .....					40%	35%
Credit per share (R\$) .....					5.92	1.79
Outstanding shares (thousands) .....					158,651	158,651

The remaining income for the year was transferred to the statutory reserve for investments and working capital in accordance with the by-laws.

#### c) Reserve for tax incentives

The Company recorded a reserve for tax incentives in the amount of R\$ 190,905 due to the reduction of income tax on the exploitation profit of the units located in the Northeastern region of Brazil, as well as benefits arising from state tax financing.

## 22 - CALCULATION OF EBITDA

	CONSOLIDATED	
	2004	2003
Gross profit .....	4,240,415	999,967
Selling expenses .....	(400,301)	(94,702)
General and administrative expenses .....	(645,510)	(174,040)
Depreciation and amortization .....	<u>492,433</u>	<u>148,450</u>
EBITDA .....	<u>3,687,037</u>	<u>879,675</u>

## 23 - OTHER OPERATING INCOME (EXPENSES), NET

The amount recorded as operating income (expenses), net mainly refers to the recognition of R\$ 102,449 (Company and consolidated) arising from the favorable outcome obtained in the lawsuit regarding PIS incorrectly paid.

## 24 - STATUTORY PROFIT SHARING

- The management profit sharing is limited to 10% of net income for the year, after income tax and management fees, as stated in the Company's by-laws;
- The employees' profit sharing is linked to the attainment of operating goals and was charged to cost of production and general and administrative expenses, as applicable.

## BOARD OF DIRECTORS

### **CHAIRMAN**

JORGE GERDAU JOHANNPETER

### **VICE CHAIRMEN**

GERMANO H. GERDAU JOHANNPETER

KLAUS GERDAU JOHANNPETER

FREDERICO C. GERDAU JOHANNPETER

CARLOS JOÃO PETRY

### **BOARD MEMBER**

MARCO ANTÔNIO PEPINO

### **SECRETARY GENERAL**

EXPEDITO LUZ

## EXECUTIVE COMMITTEE

### **PRESIDENT**

JORGE GERDAU JOHANNPETER

### **VICE PRESIDENTS**

FREDERICO C. GERDAU JOHANNPETER,  
Senior Vice President

ANDRÉ BIER JOHANNPETER

CLAUDIO JOHANNPETER

OSVALDO BURGOS SCHIRMER

DOMINGOS SOMMA

FILIFE AFFONSO FERREIRA

RICARDO GEHRKE

### **SECRETARY GENERAL**

EXPEDITO LUZ

### **CORPORATE OFFICERS**

ALFREDO HUALLEM

ANDRÉ FELIPE GUEIROS REINAUX

ANDRÉ PIRES DE OLIVEIRA DIAS

CLÁUDIO MATTOS ZAMBRANO

DIRCEU TARCÍSIO TOGNI

ÉRICO TEODORO SOMMER

EXPEDITO LUZ

FLADIMIR BATISTA LOPES GAUTO

FRANCISCO DEPPERMAN FORTES

GERALDO TOFFANELLO

GERSON MARCOS VENZON

GUILHERME CHAGAS GERDAU JOHANNPETER

HEITOR LUIS BENINCA BERGAMINI

JOAQUIM DE SOUZA GOMES

JOAQUIM GUILHERME BAUER

JOÃO APARECIDO DE LIMA

JOÃO CARLOS SALIN GONÇALVES

JOSÉ MAURÍCIO WERNECK GUIMARÃES DA SILVA

JULIO CARLOS LHAMBY PRATO

LUIZ ALBERTO MORSOLETTA

LUIZ ANDRÉ RICO VICENTE,

Vice President on Gerdau Açominas

LUIZ AUGUSTO POLACCHINI

MANOEL VÍTOR DE MENDONÇA FILHO

NESTOR MUNDSTOCK

OMAR DE OLIVEIRA FANTONI

PAULO RICARDO TOMAZELLI

PAULO ROBERTO PERLOTT RAMOS

RUY LOPES FILHO

SIRLEU JOSÉ PROTTI

TADEU PETTERLE

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Sérgio Braz Domingues

Accountant

CRC RS No. 27.466 - S - MG

CPF No. 204.819.850-34

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders  
Gerdau Açominas S.A.

- 1.** We have audited the accompanying balance sheets of Gerdau Açominas S.A. and the consolidated balance sheets of Gerdau Açominas S.A. and its subsidiaries as of December 31, 2004 and 2003, and the related statements of income, of changes in shareholders' equity and of changes in financial position of Gerdau Açominas S.A., as well as the related consolidated statements of income and of changes in financial position, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2.** We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the companies; (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3.** In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Gerdau Açominas S.A. and of Gerdau Açominas S.A. and its subsidiaries at December 31, 2004 and 2003, and the results of operations, the changes in shareholders' equity and the changes in financial position of Gerdau Açominas S.A., as well as the consolidated results of operations and of changes in financial position, for the years then ended, in accordance with accounting practices adopted in Brazil.
- 4.** Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of cash flows is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Porto Alegre, March 4, 2005

Auditores Independentes  
CRC 2SP000160/O-5 "F" MG

Carlos Alberto de Sousa  
Accountant CRC 1RJ056561/O-0 - "S" MG