

Metalúrgica Gerdau S.A.

BALANCE SHEET AT DECEMBER 31

(IN THOUSANDS OF REAIS)

ASSETS	COMPANY		CONSOLIDATED		
	2004	2003	2004	2003	
CURRENT ASSETS					
Cash and cash equivalents	note 5	95,800	25,186	2,003,945	1,015,726
Trade accounts receivable	note 6	-	-	2,564,192	1,561,083
Inventories	note 7	-	-	4,236,642	2,336,598
Tax credits	note 8	11,247	16,113	251,858	137,810
Deferred income tax and social contribution on net income	note 9	-	-	329,797	117,106
Dividends receivable		120,508	62,086	-	-
Other accounts receivable		3,801	4,095	267,058	264,504
TOTAL CURRENT ASSETS		231,356	107,480	9,653,492	5,432,827
LONG-TERM RECEIVABLES					
Related parties	note 21	-	3,390	1,231	30,509
Eletrobrás loans		372	372	10,584	10,584
Deposit for future investment in subsidiaries	note 4	-	-	182,158	-
Deferred income tax and social contribution on net income	note 9	9,702	10,830	623,722	812,105
Compulsory deposits and other	note 10	2,817	3,553	245,391	228,287
TOTAL LONG-TERM RECEIVABLES		12,891	18,145	1,063,086	1,081,485
PERMANENT ASSETS					
Investments	note 11	3,018,021	2,029,479	112,547	463,224
Fixed assets	note 12	1,593	1,738	7,928,973	7,380,838
Deferred charges	note 13	-	-	33,858	20,467
TOTAL PERMANENT ASSETS		3,019,614	2,031,217	8,075,378	7,864,529
TOTAL ASSETS		3,263,861	2,156,842	18,791,956	14,378,841

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

LIABILITIES AND SHAREHOLDER'S EQUITY	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
CURRENT LIABILITIES				
Trade accounts payable	63	4	1,921,424	1,191,065
Financing..... note 14	-	-	2,027,865	2,461,299
Debentures..... note 15	-	624	2,986	3,651
Taxes and contributions payable..... note 18	2,247	3,537	391,185	178,442
Related parties..... note 21	266	-	-	-
Deferred income tax and social contribution on net income	-	-	180,166	35,721
Salaries payable	4,218	7,364	259,919	156,289
Dividends payable	158,374	73,524	338,972	165,722
Other accounts payable	10,630	9,037	222,741	231,854
TOTAL CURRENT LIABILITIES	175,798	94,090	5,345,258	4,424,043
LONG-TERM LIABILITIES				
Financing..... note 14	-	-	3,490,374	3,396,085
Debentures..... note 15	-	-	573,504	423,956
Provision for contingencies..... note 20	664	1,800	240,964	223,015
Deferred income tax and social contribution on net income	85,540	44,315	699,119	532,263
Post-employment benefits..... note 22	-	-	294,478	278,870
Other accounts payable	40,825	44,541	292,664	263,689
TOTAL LONG-TERM LIABILITIES	127,029	90,656	5,591,103	5,117,878
MINORITY INTEREST	-	-	4,894,561	2,864,824
SHAREHOLDERS' EQUITY				
Capital..... note 23	1,664,000	1,280,000	1,664,000	1,280,000
Capital reserves	10,842	10,659	10,842	10,659
Revenue reserves.....	1,285,632	680,877	1,285,632	680,877
Retained earnings	560	560	560	560
TOTAL SHAREHOLDERS' EQUITY	2,961,034	1,972,096	2,961,034	1,972,096
Shareholders' Equity Including Minority Interest.....	-	-	7,855,595	4,836,920
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,263,861	2,156,842	18,791,956	14,378,841

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	note 26	-	-	23,407,573	15,782,967
Taxes on sales.....		-	-	(2,456,568)	(1,427,585)
Freight and discounts		-	-	(1,353,743)	(988,421)
NET SALES REVENUES		-	-	19,597,262	13,366,961
COST OF SALES AND/OR SERVICES RENDERED		-	-	(13,352,238)	(10,076,740)
GROSS PROFIT		-	-	6,245,024	3,290,221
SELLING EXPENSES.....		-	-	(455,175)	(448,131)
FINANCIAL INCOME	note 17	10,239	11,900	249,261	86,754
FINANCIAL EXPENSES.....	note 17	(6,852)	(5,616)	(397,642)	(708,130)
GENERAL AND ADMINISTRATIVE EXPENSES					
Management fees.....		(3,168)	(2,957)	(50,654)	(35,256)
General expenses		(28,891)	(27,036)	(1,000,299)	(769,245)
EQUITY IN THE EARNINGS (LOSSES) OF SUBSIDIARIES AND ASSOCIATED COMPANIES	note 11	1,342,842	610,001	(344,628)	(281,240)
OTHER OPERATING INCOME (EXPENSES), NET		96	367	191,043	17,208
OPERATING PROFIT.....		1,314,266	586,659	4,436,930	1,152,181
NON-OPERATING INCOME (EXPENSES), NET		170,953	1,445	144,102	(6,162)
PROFIT BEFORE TAXES AND PROFIT SHARING.....		1,485,219	588,104	4,581,032	1,146,019
PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME.....	note 9				
Current.....		(2,624)	(3,305)	(957,000)	(314,614)
Deferred		(42,352)	(6,663)	(238,405)	454,470
MANAGEMENT PROFIT SHARING	note 24a	(3,168)	(2,957)	(44,530)	(29,001)
NET INCOME BEFORE MINORITY INTEREST.....		1,437,075	575,179	3,341,097	1,256,874
MINORITY INTEREST.....				(1,904,022)	(681,695)
NET INCOME FOR THE YEAR.....				1,437,075	575,179
Net income per share - R\$		17.42	13.88		
Net equity per share - R\$.....		35.90	47.58		

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
FINANCIAL RESOURCES WERE PROVIDED BY				
Operations:				
Net income for the year	1,437,075	575,179	3,341,097	1,256,874
Expenses (income) not affecting working capital				
Depreciation and amortization	145	149	766,819	605,045
Cost of permanent asset disposals	79,158	8,771	360,815	42,201
Equity in the (earnings) losses of subsidiaries and associated companies	note 11 (1,342,842)	(610,001)	344,628	281,240
Gain on sale of shares by subsidiary	note 11 (125,969)	-	-	-
Foreign exchange effects on working capital of				
foreign companies	-	-	(86,946)	(120,202)
Monetary variations on long-term debt	3,707	4,653	(131,822)	(11,085)
Monetary variations on long-term receivables	-	-	(526)	(5,107)
From operations	<u>51,274</u>	<u>(21,249)</u>	<u>4,594,065</u>	<u>2,048,966</u>
Third parties:				
Capital increase	-	-	493,181	-
Treasury shares	note 23 (14,441)	(7,049)	(41,477)	(24,152)
Increase (decrease) in long-term liabilities	32,666	(2,334)	768,045	675,463
Contributions to capital reserves	183	-	16,246	66,302
Working capital of consolidated companies	-	-	-	53,198
Working capital - purchase of assets	-	-	669,446	-
Dividends not included in income for the year	404,325	173,643	-	459
TOTAL FUNDS PROVIDED	<u>474,007</u>	<u>143,011</u>	<u>6,499,506</u>	<u>2,820,236</u>
FINANCIAL RESOURCES WERE USED FOR				
Investments	3,214	5,119	41,619	80,402
Purchase of assets	-	-	924,457	-
Fixed assets	-	-	1,262,707	843,462
Deferred charges	-	-	18,654	7,246
Increase (decrease) in long-term receivables	(5,254)	576	(13,500)	518,612
Dividends/interest on equity	note 23 433,879	172,100	966,119	354,015
TOTAL FUNDS USED	<u>431,839</u>	<u>177,795</u>	<u>3,200,056</u>	<u>1,803,737</u>
CHANGES IN WORKING CAPITAL	<u>42,168</u>	<u>(34,784)</u>	<u>3,299,450</u>	<u>1,016,499</u>
Working capital				
At the beginning of the year	13,390	48,174	1,008,784	(7,715)
At the end of the year	<u>55,558</u>	<u>13,390</u>	<u>4,308,234</u>	<u>1,008,784</u>
CHANGES IN WORKING CAPITAL	<u>42,168</u>	<u>(34,784)</u>	<u>3,299,450</u>	<u>1,016,499</u>

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
	CAPITAL	PREMIUM ON ISSUE OF SHARES	OTHER	TOTAL	LEGAL	INVESTMENTS AND WORKING CAPITAL	TOTAL	
AT DECEMBER 31, 2002	640,000	8,686	1,973	10,659	79,181	845,666	924,847	1,576,066
Net income for the year	-	-	-	-	-	-	-	575,179
Capital increase through capitalization of reserve note 23	640,000	-	-	-	-	(640,000)	(640,000)	-
Treasury shares note 23	-	-	-	-	-	(7,049)	(7,049)	(7,049)
Distribution proposed for the Annual General Meeting	-	-	-	-	-	-	-	-
Legal reserve note 23	-	-	-	-	28,759	-	28,759	(28,759)
Reserve for investments and working capital	-	-	-	-	-	374,320	374,320	(374,320)
Dividends/interest on equity note 23	-	-	-	-	-	-	-	(172,100)
AT DECEMBER 31, 2003	1,280,000	8,686	1,973	10,659	107,940	572,937	680,877	1,972,096
Net income for the year	-	-	-	-	-	-	-	1,437,075
Capital increase note 23	384,000	-	-	-	-	(384,000)	(384,000)	-
Investment incentives	-	-	183	183	-	-	-	183
Treasury shares note 23	-	-	-	-	-	(14,441)	(14,441)	(14,441)
Distribution proposed for the Annual General Meeting	-	-	-	-	-	-	-	-
Legal reserve note 23	-	-	-	-	71,855	-	71,855	(71,855)
Reserve for investments and working capital	-	-	-	-	-	931,341	931,341	(931,341)
Dividends/interest on equity note 23	-	-	-	-	-	-	-	(433,879)
AT DECEMBER 31, 2004	1,664,000	8,686	2,156	10,842	179,795	1,105,837	1,285,632	2,961,034

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	1,437,075	575,179	3,341,097	1,256,874
Equity in the (earnings) losses of subsidiaries and associated companies . note 11	(1,342,842)	(610,001)	344,628	281,240
Provision for credit risks.....	-	-	7,647	20,618
Gain on disposal of fixed assets.....	-	-	9,058	10,056
Gain (loss) on disposal of investments.....	(170,953)	(1,445)	(164,058)	(1,556)
Monetary and exchange variations.....	5,198	5,563	(94,087)	136,349
Depreciation and amortization.....	145	149	766,819	605,045
Income tax and social contribution on net income.....	47,393	8,420	505,551	(441,456)
Interest on debt	778	14	412,152	593,308
Contingencies/judicial deposits	(940)	18	4,351	562
Changes in trade accounts receivable.....	-	-	(720,363)	(167,134)
Changes in inventories.....	-	-	(1,402,408)	(207,267)
Changes in trade accounts payable.....	58	(27)	477,292	187,227
Other operating activity accounts	(33,737)	8,656	(100,288)	74,557
Net cash provided by (used in) operating activities.....	(57,825)	(13,474)	3,387,391	2,348,423
Acquisition/disposal of fixed assets.....	-	-	(1,173,491)	(873,039)
Increase in deferred charges.....	-	-	(18,006)	(7,246)
Acquisition/disposal of investments	155,144	5,097	362,905	(67,005)
Purchase of assets.....	-	-	(924,457)	-
Receipt of dividends/interest on equity	351,884	185,108	-	-
Net cash provided by (used in) investing activities	507,028	190,205	(1,753,049)	(947,290)
Suppliers of fixed assets.....	-	-	144,573	2,196
Working capital financing	(7,778)	(7,015)	(133,006)	(334,804)
Debentures	(586)	(423)	85,305	(347,456)
Permanent asset financing	-	-	762,766	454,989
Payment of permanent asset financing.....	-	-	(677,357)	(541,308)
Payment of financing interest.....	-	-	(379,801)	(414,409)
Loans with related parties.....	2,839	(2,506)	35,944	(16,937)
Capital increase/treasury shares	(14,441)	(7,049)	451,704	(24,151)
Payment of dividends/interest on equity and profit sharing.....	(358,623)	(198,413)	(853,710)	(423,399)
Net cash used in financing activities	(378,589)	(215,406)	(563,582)	(1,645,279)
Changes in cash and cash equivalents	70,614	(38,675)	1,070,760	(244,146)
Cash and cash equivalents				
At the beginning of the year	note 5	25,186	63,861	1,015,726
Restatement of opening balance	-	-	(82,541)	(173,736)
Opening balance of consolidated companies for the year.....	-	-	-	13,372
At the end of the year	note 5	95,800	25,186	2,003,945
			1,015,726	

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

(ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

1 - OPERATIONS

Metalúrgica Gerdau S.A. is a holding company in the Gerdau Group, which is principally dedicated to the production of common and special steel and to the sale of general steel products (flat and long), 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 is 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 rebars 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 Metalúrgica Gerdau S.A. and the directly or indirectly controlled subsidiaries listed below:

CONSOLIDATED COMPANY	PERCENTAGE OWNERSHIP	SHAREHOLDERS' EQUITY
Gerdau S.A.	100	6,073,856
Gerdau Participações S.A.	100	4,887,726
Gerdau Açominas S.A.	100	4,766,046
Gerdau Ameristeel Corporation and subsidiaries*	100	3,622,636
Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau	100	2,785,282
Gerdau GTL Spain S.L.	100	2,761,750
Gerdau Steel Inc.	100	2,351,341
Axol S.A.	100	476,156
Gerdau Chile Inversiones Ltda.	100	476,126
Indústria Del Acero S.A. - Indac	100	476,063
Gerdau Aza S.A.	100	421,401
Santa Felicidade Com. Imp. e Exp. de Produtos Siderúrgicos Ltda.	100	388,298
Seiva S.A. - Florestas e Indústrias	100	202,143
Itaguaí Com. Imp. e Exp. Ltda.	100	193,964
Sipar Aceros S.A.	38	78,037
Margusa - Maranhão Gusa S.A.	100	73,714
Gerdau Laisa S.A.	100	51,897
Aramac S.A.	100	49,355
GTL Equity Investments Corp.	100	49,286
Banco Gerdau S.A.	100	33,618
Açominas Com. Imp. Exp. S.A. - Açotrading	100	22,583
Florestal Rio Largo Ltda.	100	18,174
Aceros Cox Comercial S.A.	100	10,110
Gerdau Açominas Overseas Ltda.	100	7,914
Florestal Itacambira S.A.	100	7,650
Siderco S.A.	38	6,958
GTL Financial Corp.	100	4,931
GTL Trade Finance Inc.	100	27
Dona Francisca Energética S.A.	52	(16,350)

*Subsidiaries:

Gerdau Ameristeel MRM Special Sections Inc. (100%), Gerdau USA Inc. (100%), Ameristeel Bright Bar Inc. (100%), Gerdau Ameristeel US Inc. (100%), Gerdau Ameristeel Perth Amboy Inc. (100%), Gallatin Steel Company (50%) e Gerdau Ameristeel Sayreville Inc. (100%).

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

- I) Metalúrgica Gerdau S.A. and its subsidiaries adopt consistent practices to record their operations and value their assets and liabilities. The financial statements of foreign subsidiaries were translated using the exchange rate in effect at the balance sheet date and were adjusted to conform with accounting practices adopted in Brazil;
- II) Asset, liability and income statement balances arising from transactions between consolidated companies have been eliminated; and
- III) Holdings of minority shareholders in subsidiaries are shown separately.

c) During the year, the following transactions occurred:

- I) On February 16, 2004, the subsidiary Gerdau Ameristeel Corporation signed a sale and purchase agreement for the acquisition of all assets of Potter Form & Tie Co., headquartered in Belvidere, Illinois, in the United States of America. The acquisition price was US\$ 11 million, equivalent to R\$ 31,995 on that date;
- II) On April 16, 2004, the subsidiary Gerdau S.A., through its indirect subsidiary Gerdau Steel Inc., acquired 26,800,000 shares of Gerdau Ameristeel Corporation through a capital increase of Cdn\$ 131 million, equivalent to R\$ 283,937 on that date. After this transaction, Gerdau S.A. held, indirectly, 72% of Gerdau Ameristeel Corporation;

III) The Extraordinary General Meeting of shareholders of the subsidiary Gerdau S.A. held on June 30, 2004 approved the merger of the subsidiary GTL Brasil Ltda., without the issue of new shares. The net assets transferred to Gerdau S.A. as a result of the merger, are as follows:

ASSETS	
Current assets.....	534
Long-term receivables.....	8
Permanent assets	
Investments	
Seiva S.A. - Florestas e Indústrias.....	17,883
Gerdau Açominas S.A.....	333,257
(-) Negative goodwill - Gerdau Açominas S.A.....	(280,882)
Total permanent assets.....	70,258
Total assets.....	70,800
LIABILITIES	
Current liabilities.....	1,495
Long-term liabilities.....	4,591
Total liabilities.....	6,086
Total net assets.....	64,714

IV) On October 15, 2004, the subsidiary Gerdau S.A. announced to the market that the indirect subsidiary Gerdau Ameristeel Corporation obtained the confirmation of its registration with the Canadian securities regulatory authorities for the public offer of 70 million common shares. Gerdau S.A., through its subsidiary Gerdau Steel Inc., acquired 35,000,000 and 4,381,000 common shares on October 20, 2004 and November 18, 2004, respectively, in the total amount of US\$ 185 million, equivalent to R\$ 528,787 on those dates. The transaction initially was a capital increase in Gerdau Steel Inc., through the issue of 817,969 common shares. Subsequently, on December 28, 2004, Gerdau S.A. paid up capital in Gerdau Internacional Empreendimentos Ltda. (the company that holds the investments abroad) through the transfer of 817,969 common shares of Gerdau Steel Inc. in the amount of R\$ 499,430. Following this transaction, Metalúrgica Gerdau S.A. held, indirectly, 66.5% of Gerdau Ameristeel Corporation.

V) On October 28, 2004, the subsidiary Gerdau S.A., through its indirect subsidiary Gerdau Ameristeel Corporation, announced the signature of a sale and purchase agreement for the acquisition of the assets of Gate City Steel Inc. and RJ Rebar Inc. (cutting and folding of rebars, with and without epoxy covering), headquartered in Indianapolis, Indiana, in the United States of America. The acquisition price was US\$ 16 million (R\$ 42,470 at December 31, 2004);

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

VII) On November 1, 2004, the subsidiary Gerdau S.A., through its indirect subsidiary Gerdau Ameristeel Corporation, purchased the fixed assets and working capital of four mills producing long steel, three processing units of wire rods and one producer of steel grinding balls for the mining industry owned by North Star Steel, announced on September 9, 2004. The price paid for these assets was US\$ 266 million (R\$ 706,070 at December 31, 2004), in cash. Gerdau Ameristeel Corporation also paid an additional US\$ 52 million (R\$ 138,029 at December 31, 2004) as an adjustment in the purchase price due to fluctuations in working capital up to the transaction date;

VIII) On December 23, 2004, the Gerdau Group reached an agreement with the Mayaguez Group and The Latinamerican Enterprise Steel Holding, majority shareholders of Diaco S.A., the largest Colombian producer of steel and rebars, and Siderúrgica del Pacífico S.A. - Sidelpa, the only producer of special steel in that country, for the scheduled acquisition of their holdings in these companies. Initially, US\$ 69 million (R\$ 182,158 at December 31, 2004) were invested, recorded as "deposit for future investment in subsidiaries" in long-term receivables. The Mayaguez Group, which will remain as a Diaco shareholder for a maximum eight-year period, formed a strategic partnership with the Gerdau Group for the development of the Colombian steel industry; and

IX) On December 3, 2004, the Board of Directors of the subsidiary Gerdau S.A. authorized the company's management to implement corporate restructuring measures to obtain greater strategic advantages, as well as greater operating and management efficiency, arising from the specialization and location of the different business units and areas of the Gerdau Group. The efforts will be concentrated in the main activities, focused operations and gain of critical mass within each of the activity areas. Also, this restructuring will consider solutions for the Group's future growth. On December 29, 2004, the first act of this process was completed, with the capital increase of the holding company Gerdau Participações S.A. through the shares held in Gerdau Açominas S.A. and part of the quotas in Gerdau Internacional Empreendimentos Ltda., held by Gerdau S.A., representing, respectively, 91.5% and 22.8% of those companies' capital. The capital of Gerdau Participações S.A. was also increased by the direct and indirect investments held by Gerdau Internacional Empreendimentos Ltda. in Gerdau Chile Inversiones Ltda., Gerdau Laisa S.A. and Sipar Aceros S.A. The final corporate restructuring model has not yet been finished and will be implemented as the management proposals are approved by the Board of Directors. Accordingly, additional measures should be implemented during this year and they will be advised, as soon as they occur.

d) The financial statements of the jointly-owned subsidiary Dona Francisca Energética S.A., and the jointly-owned indirect subsidiaries Gallatin Steel Company and Sipar Aceros S.A., were consolidated proportionally based on the direct or indirect interest of the parent company in the capital of these subsidiaries.

The amounts of the financial statements of these companies are shown as follows:

	DONA FRANCISCA ENERGÉTICA S.A.		GALLATIN STEEL COMPANY		SIPAR ACEROS S.A. CONSOLIDADO *	
	2004	2003	2004	2003	2004	2003
ASSETS						
Current assets.....	116,627	111,782	586,106	290,036	144,251	85,185
Long-term receivables.....	128,427	129,889	-	-	-	2,863
Permanent assets.....	180,984	191,728	612,762	736,223	18,929	19,109
Total assets.....	<u>426,038</u>	<u>433,399</u>	<u>1,198,868</u>	<u>1,026,259</u>	<u>163,180</u>	<u>107,157</u>
LIABILITIES						
Current liabilities.....	29,381	28,522	131,580	152,134	80,787	40,252
Long-term liabilities.....	413,006	423,722	54,190	230,651	4,356	4,212
Shareholders' equity.....	(16,349)	(18,845)	1,013,098	643,474	78,037	62,693
Total liabilities.....	<u>426,038</u>	<u>433,399</u>	<u>1,198,868</u>	<u>1,026,259</u>	<u>163,180</u>	<u>107,157</u>
STATEMENT OF OPERATIONS						
Gross sales revenues.....	44,987	37,189	2,384,065	1,260,130	437,864	296,651
Sales deductions.....	(2,207)	(3,952)	(11,215)	(14,157)	(87,259)	(62,398)
Net sales revenues.....	42,780	33,237	2,372,850	1,245,973	350,605	234,253
Cost of sales.....	(19,424)	(19,520)	(1,626,650)	(1,194,150)	(285,566)	(188,139)
Gross profit.....	23,356	13,717	746,200	51,823	65,039	46,114
Selling expenses.....	-	-	(6,224)	(5,336)	(4,987)	(2,259)
General and administrative expenses.....	(2,110)	(2,251)	(45,010)	(33,376)	(19,876)	(12,762)
Other financial income (expenses).....	(17,882)	(20,743)	(14,030)	(22,620)	(8,101)	2,681
Other operating income (expenses).....	-	-	-	-	(76)	(3,346)
Operating profit (loss).....	3,364	(9,277)	680,936	(9,509)	31,999	30,428
Non-operating income (expenses), net.....	380	3,790	10,225	(1,367)	759	(2,889)
Provision for income tax and social contribution.....	(1,249)	1,871	(797)	-	(10,188)	(7,425)
Net income (loss) for the year.....	<u>2,495</u>	<u>(3,616)</u>	<u>690,364</u>	<u>(10,876)</u>	<u>22,570</u>	<u>20,114</u>

* includes the subsidiary Siderco

e) The Company and its direct and indirect subsidiaries have goodwill and negative goodwill balances, which are being amortized as the assets that generated them are realized or based on the realization of the projected future income, limited to ten years, as follows:

	AMORTIZATION PERIOD	COMPANY	CONSOLIDATED
GOODWILL INCLUDED IN THE INVESTMENTS ACCOUNTS			
Balance at December 31, 2003.....		-	432,077
(+) Goodwill recorded in the period.....		1,502	308,899
(-) Reversal of goodwill based on the adjustment in purchase price (Margusa - Maranhão Gusa S.A.).....		-	(5,258)
(-) Write-off of goodwill as a result of the merger of the subsidiary GTL Brasil.....		-	(280,882)
(-) Foreign exchange adjustment.....		-	(36,361)
(-) Amortization for the year.....	up to 10 years	(1,502)	(365,621)
Balance at December 31, 2004 (based on expectation of future profitability).....		-	52,854
ANALYSIS OF THE GOODWILL BY			
Margusa - Maranhão Gusa S.A.....		-	24,728
Dona Francisca Energética S.A.....		-	19,512
Armacero Industrial y Comercial Ltda.....		-	457
Distribuidora Matco S.A.....		-	6,066
Salomon Sack S.A.....		-	2,091
		-	52,854

	AMORTIZATION PERIOD	COMPANY	CONSOLIDATED
GOODWILL INCLUDED IN THE FIXED ASSET ACCOUNTS			
Balance at December 31, 2003		-	239,740
(-) Foreign exchange adjustment		-	(14,860)
(-) Amortization for the year	up to 10 years	-	(79,921)
Balance at December 31, 2004 (based on undervaluation of assets).....		-	144,959
The goodwill mainly resulted from the assets of the subsidiary Gerdau Ameristeel US Inc.			
NEGATIVE GOODWILL INCLUDED IN THE FIXED ASSET ACCOUNTS			
Balance at December 31, 2003		-	(272,130)
(-) Amortization for the year		-	28,853
Balance at December 31, 2004 (based on overvaluation of assets).....	up to 10 years	-	(243,277)
The negative goodwill arises from the assets of the subsidiary Gerdau Açominas S.A.			

The goodwill recorded in the investment accounts, calculated on the subsidiary Gerdau Ameristeel US Inc., were reviewed in respect of their amortization period and projected profitability. The remaining balance was amortized in accordance with accounting practices adopted in Brazil, and based on the current scenario and performance of the subsidiary Gerdau Ameristeel Corporation.

The equity accounting loss in the consolidated statement of income refers, basically, to the effect of the devaluation of the U.S. dollar on the foreign investments, to goodwill amortization for the year and to the tax incentive reserves arising from the reduction of income tax on the exploitation profit of the subsidiaries Gerdau Açominas S.A. and Margusa - Maranhão Gusa S.A., both located in the Northeastern region of Brazil, as well as to benefits arising from state tax financing.

5 - CASH AND CASH EQUIVALENTS

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Cash and banks	98	23	337,767	125,596
Financial investment fund	-	-	527,102	326,551
Fixed income securities	95,702	25,163	1,101,388	364,116
Equities	-	-	37,688	199,463
	<u>95,800</u>	<u>25,186</u>	<u>2,003,945</u>	<u>1,015,726</u>

Of the existing balance, R\$ 1,004,550 - consolidated (R\$ 518,315 - consolidated in 2003) refers to investments in U.S. dollars.

6 - TRADE ACCOUNTS RECEIVABLE

	CONSOLIDATED	
	2004	2003
Customers in Brazil.....	880,557	568,968
Brazilian exports receivable.....	543,954	235,442
Receivables from customers of overseas companies.....	1,232,095	835,212
Provision for credit risks.....	(92,414)	(78,539)
	<u>2,564,192</u>	<u>1,561,083</u>

7 - INVENTORIES

	CONSOLIDATED	
	2004	2003
Finished products	1,728,652	868,147
Work in process	679,167	323,373
Raw materials	1,112,467	586,311
Storeroom materials	649,892	517,010
Advances to suppliers	66,464	41,757
	<u>4,236,642</u>	<u>2,336,598</u>

The inventories 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)	9	9	99,819	90,820
Social Contribution on Revenues (COFINS) to offset	-	-	56,302	-
Social Integration Program (PIS) to offset	-	-	36,730	4,759
Excise Tax (IPI)	-	-	3,310	6,358
Income tax and social contribution on net income	11,232	16,076	46,396	30,435
Tax on Added Value (IVA)	-	-	1,861	487
Other	6	28	7,440	4,951
	<u>11,247</u>	<u>16,113</u>	<u>251,858</u>	<u>137,810</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
Profit before income tax and social contribution, after statutory profit sharing	1,482,051	1,482,051	1,482,051	585,147	585,147	585,147
Statutory rates	25%	9%	34%	25%	9%	34%
Income tax and social contribution expense at statutory rates...	(370,513)	(133,385)	(503,898)	(146,287)	(52,663)	(198,950)
Tax effects on:						
- equity in earnings (losses)	335,711	120,856	456,567	152,500	54,900	207,400
- interest on equity	(685)	(247)	(932)	46	17	63
- permanent differences (net)	2,297	990	3,287	(13,801)	(4,680)	(18,481)
Income tax and social contribution expense	<u>(33,190)</u>	<u>(11,786)</u>	<u>(44,976)</u>	<u>(7,542)</u>	<u>(2,426)</u>	<u>(9,968)</u>
Current	(2,070)	(554)	(2,624)	(2,575)	(730)	(3,305)
Deferred	(31,120)	(11,232)	(42,352)	(4,967)	(1,696)	(6,663)

IR - Corporate income tax.

CS - Social contribution on net income.

	CONSOLIDATED					
	2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL
Profit before income tax and social contribution, after statutory profit sharing	4,536,502	4,536,502	4,536,502	1,117,018	1,117,018	1,117,018
Statutory rates	25%	9%	34%	25%	9%	34%
Income tax and social contribution expenses at statutory rates .	(1,134,126)	(408,285)	(1,542,411)	(279,255)	(100,532)	(379,787)
Tax effects on:						
- tax rate difference for foreign companies	(96,019)	91,649	(4,370)	38,906	(14,169)	24,737
- equity in earnings (losses)	(86,157)	(31,017)	(117,174)	(70,310)	(25,312)	(95,622)
- interest on equity	90,350	32,526	122,876	88,569	31,885	120,454
- foreign exchange effect	29,731	2,676	32,407	72,863	26,231	99,094
- recovery of deferred tax assets	270,770	48,109	318,879	305,724	117,027	422,751
- permanent differences (net)	(34,333)	28,721	(5,612)	(38,028)	(13,743)	(51,771)
Income tax and social contribution expense	<u>(959,784)</u>	<u>(235,621)</u>	<u>(1,195,405)</u>	<u>118,469</u>	<u>21,387</u>	<u>139,856</u>
Current	(789,638)	(167,362)	(957,000)	(240,313)	(74,301)	(314,614)
Deferred	(170,146)	(68,259)	(238,405)	358,782	95,688	454,470

IR - Corporate income tax.

CS - Social contribution on net income.

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

	ASSETS											
	COMPANY						CONSOLIDATED					
	2004			2003			2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL
Income tax losses	3,572	-	3,572	4,499	-	4,499	431,440	-	431,440	462,096	-	462,096
Social contribution losses	-	5,023	5,023	-	5,260	5,260	-	69,255	69,255	-	94,826	94,826
Provision for contingencies	117	42	159	345	124	469	48,846	17,465	66,311	41,133	14,680	55,813
Benefits to employees	-	-	-	-	-	-	101,474	-	101,474	95,839	-	95,839
Commissions/other	-	-	-	-	-	-	156,345	2,343	158,688	80,178	1,492	81,670
Amortized goodwill	948	-	948	602	-	602	7,391	2,319	9,710	9,696	3,274	12,970
Provision for losses	-	-	-	-	-	-	87,595	29,046	116,641	94,462	31,535	125,997
	<u>4,637</u>	<u>5,065</u>	<u>9,702</u>	<u>5,446</u>	<u>5,384</u>	<u>10,830</u>	<u>833,091</u>	<u>120,428</u>	<u>953,519</u>	<u>783,404</u>	<u>145,807</u>	<u>929,211</u>
Current	-	-	-	-	-	-	271,204	58,593	329,797	90,981	26,125	117,106
Long-term	4,637	5,065	9,702	5,446	5,384	10,830	561,887	61,835	623,722	692,423	119,682	812,105

	LIABILITIES											
	COMPANY						CONSOLIDATED					
	2004			2003			2004			2003		
	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL	IR	CS	TOTAL
Accelerated depreciation	-	-	-	-	-	-	576,176	823	576,999	426,751	854	427,605
Amortized negative goodwill/ deferred capital gain	68,903	16,637	85,540	38,590	5,725	44,315	121,116	31,265	152,381	98,263	22,326	120,589
Inflationary/exchange effect ...	-	-	-	-	-	-	115,934	33,971	149,905	19,790	-	19,790
	<u>68,903</u>	<u>16,637</u>	<u>85,540</u>	<u>38,590</u>	<u>5,725</u>	<u>44,315</u>	<u>813,226</u>	<u>66,059</u>	<u>879,285</u>	<u>544,804</u>	<u>23,180</u>	<u>567,984</u>
Current	-	-	-	-	-	-	146,195	33,971	180,166	35,721	-	35,721
Long-term	68,903	16,637	85,540	38,590	5,725	44,315	667,031	32,088	699,119	509,083	23,180	532,263

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\$ 318,879 (R\$ 422,751 - 2003) in subsidiaries, 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	-	-	329,797	117,106
2005	-	4,967	65,829	134,554
2006	-	2,161	65,120	126,773
2007	-	1,784	86,693	128,414
2008	4,297	1,918	132,680	151,321
2009	5,405	-	173,548	91,669
2010 to 2012	-	-	99,852	145,083
2013 to 2014	-	-	-	34,291
	<u>9,702</u>	<u>10,830</u>	<u>953,519</u>	<u>929,211</u>

10 - COMPULSORY DEPOSITS AND OTHER

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Compulsory deposits.....	318	-	30,767	16,421
Receivables under contract.....	2,397	2,895	49,893	43,223
ICMS credits on purchases of fixed assets.....	-	-	72,581	56,270
Income tax incentives	102	145	10,230	10,314
Prepaid expenses	-	-	-	3,036
Assets not for use	-	-	45,779	52,614
Prepaid financial expenses and others.....	-	513	36,141	46,409
	<u>2,817</u>	<u>3,553</u>	<u>245,391</u>	<u>228,287</u>

11 - INVESTMENTS

	COMPANY										
	2004					2003					
	INVESTMENT	GOODWILL	GERDAU S.A.	GERDAU S.A.	BANCO GERDAU S.A.	GLAM PARTICIPAÇÕES S.A.	SANTA FELICIDADE COM. IMP. EXP. PROD. SID. LTDA.	INVESTMENT	OTHER	TOTAL	
Opening balance	1,820,152	-	-	28,216	-	106	179,356	134	1,515	2,029,479	1,596,773
Merger/capitalization	-	-	-	-	-	(23,396)	23,396	-	-	-	-
Acquisition.....	745	-	-	-	-	-	-	-	967	1,712	5,119
Goodwill on acquisition of investment	-	1,502	-	-	-	-	-	-	-	1,502	-
Sale	(76,837)	-	-	-	-	-	-	(116)	(2,205)	(79,158)	(8,771)
Equity in earnings (losses)	1,228,992	(1,502)	-	8,625	23,290	83,383	125,969	54	-	1,342,842	610,001
Gain on sale of shares by ²	-	-	-	-	-	-	-	-	-	125,969	-
Dividends/interest on equity	(376,947)	-	-	(3,564)	-	-	(23,806)	(8)	-	(404,325)	(173,643)
Closing balance.....	2,596,105	-	-	33,277	-	-	388,298	64	277	3,018,021	2,029,479
Capital	3,471,312	-	-	21,700	-	-	550,893	-	-	-	-
Adjusted shareholders' equity	6,073,856	-	-	33,618	-	-	388,298	-	-	-	-
Net income for the year	2,831,339	-	-	8,695	23,291	106,665	100,00%	-	-	-	-
Percentage of Interest (%)	42,75%	-	-	99,00%	-	-	550,892,935	-	-	-	-
Common shares/quotas held	77,975,404	-	-	1,352,676	-	-	-	-	-	-	-
Preferred shares held	48,875,508	-	-	1,352,676	-	-	-	-	-	-	-

¹Includes amortization of goodwill.

²Gain arising from the sale of shares by the subsidiary Santa Felicidade Com. Imp. Exp. Prod. Sid. Ltda. due to the Public Offer of Shares of Gerdaul S.A.

	CONSOLIDATED			
	2004			2003
	INVESTMENT	GOODWILL	TOTAL	TOTAL
Gerdau Ameristeel US Inc.	-	-	-	281,870
Gerdau Ameristeel Corporation	-	-	-	80,470
Margusa - Maranhão Gusa S.A.	-	24,728	24,728	43,564
Dona Francisca Energética S.A.	-	19,512	19,512	21,951
Armacero Industrial y Comercial Ltda.	9,871	457	10,328	10,321
Distribuidora Matco S.A. ¹	12,400	6,066	18,466	-
Salomon Sack S.A. ¹	17,873	2,091	19,964	-
Corporate joint ventures	10,036	-	10,036	9,984
Other	9,513	-	9,513	15,064
	<u>59,693</u>	<u>52,854</u>	<u>112,547</u>	<u>463,224</u>

¹ Companies purchased by the indirect subsidiary Industria del Aceros S.A. - Indac.

12 - FIXED ASSETS

	ANUAL DEPRECIATION RATE %	COMPANY			
		2004			2003
		COST	ACCUMULATED DEPRECIATION AND DEPLETION	NET	NET
Land, buildings and structures	0 to 4	4,918	(3,325)	1,593	1,738
		<u>4,918</u>	<u>(3,325)</u>	<u>1,593</u>	<u>1,738</u>

	ANUAL DEPRECIATION RATE %	CONSOLIDATED			
		2004			2003
		COST	ACCUMULATED DEPRECIATION AND DEPLETION	NET	NET
Land, buildings and structures	0 to 10	3,315,650	(1,083,206)	2,232,444	2,303,169
Machinery, equipment and installations	5 to 10	7,965,817	(3,639,334)	4,326,483	4,085,090
Furniture and fixtures	5 to 10	110,487	(69,690)	40,797	38,005
Vehicles	20 to 33	41,678	(31,112)	10,566	12,369
Electronic data equipment/rights/licenses	20 to 33	284,837	(188,113)	96,724	94,112
Construction in progress	-	1,065,583	-	1,065,583	718,810
Forestation/reforestation	Plano de corte	207,431	(51,055)	156,376	129,283
		<u>12,991,483</u>	<u>(5,062,510)</u>	<u>7,928,973</u>	<u>7,380,838</u>

a) Insured amounts - the assets are insured against fire, electrical damage and explosion. The coverage is determined based on the risks involved. The plants of the North American subsidiaries and the Ouro Branco plant of the subsidiary Gerdau Açominas S.A. have coverage for loss of profits.

b) Capitalization of interest and financial charges - R\$ 2,021 was capitalized during the year - consolidated, (R\$ (14,711) consolidated in 2003).

c) Guarantees offered - fixed assets were pledged as collateral for loans and financing in the amount of R\$ 688,034 - consolidated (R\$ 539,724 consolidated in 2003).

d) Summary of changes in fixed assets:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Balance at the beginning of the year.....	1,738	1,888	7,380,838	7,581,144
(+) Purchases/sales in the year.....	-	-	1,167,022	830,871
(-) Depreciation and depletion in cost of sales.....	-	-	(692,609)	(538,286)
(-) Depreciation and depletion in administrative expenses.....	(145)	(150)	(69,594)	(61,806)
(+) Companies consolidated in the year.....	-	-	-	289,055
(-) Revaluation reversal.....	-	-	-	(365,347)
(+) Purchase of North Star and others.....	-	-	267,948	-
(-) Foreign exchange effect on foreign fixed assets.....	-	-	(124,632)	(354,793)
Balance at the end of the year.....	<u>1,593</u>	<u>1,738</u>	<u>7,928,973</u>	<u>7,380,838</u>

13 - DEFERRED CHARGES

Consolidated deferred charges comprise pre-operating expenses in the construction of a power plant, as well as reforestation, research, development and restructuring projects.

14 - FINANCING

Financing are represented as follows:

	ANUAL CHARGES	CONSOLIDATED	
		2004	2003
CURRENT			
Working capital financing (R\$).....	8.00% to 14.00%	60,642	95,388
Fixed asset financing (R\$).....	12.00%	-	3,054
Investment financing (R\$).....	CDI	4,500	4,500
Investment financing (US\$).....	US\$	133,955	45,649
Working capital financing (US\$).....	1.36% to 10.50%	1,085,418	1,341,746
Fixed asset financing and others (US\$).....	US\$	-	8,692
Working capital financing (Clp\$).....	0.23% to 0.32%	31,905	30,025
Working capital financing (PAS).....	4.25% to 10.00%	19,956	-
Current portion of long-term financing.....		<u>691,489</u>	<u>932,245</u>
		2,027,865	2,461,299
LONG-TERM			
Working capital financing (R\$).....	10.02%	28,215	3,812
Fixed asset financing and others (R\$).....	4.00% to 9.90%	657,720	627,727
Investment financing (R\$).....	IGPM + 8.5%	29,045	35,019
Fixed asset financing and others (US\$).....	1.74% to 9.97%	762,338	761,288
Working capital financing (US\$).....	2.95% to 10.75%	2,473,200	2,643,325
Investment financing (US\$).....	4.04%	182,943	-
Working capital financing (Cdn\$).....	2.00% to 3.25%	-	164,974
Fixed assets financing (Cdn\$).....	2.00% to 3.25%	3,485	3,837
Working capital financing (Clp\$).....	0.29% to 0.43%	16,254	29,952
Fixed assets financing (Clp\$).....	0.26% to 0.43%	27,000	58,396
Fixed assets financing (PAS).....	4.25% to 10.00%	1,663	-
(-) Current portion.....		<u>(691,489)</u>	<u>(932,245)</u>
		<u>3,490,374</u>	<u>3,396,085</u>
Total financing.....		<u>5,518,239</u>	<u>5,857,384</u>

CDI - Certificate of Interbank Deposit interest rate.

IGPM - General Market Price Index.

Summarized by currency:

	CONSOLIDATED	
	2004	2003
Brazilian real (R\$).....	780,122	769,500
U.S. dollar (US\$).....	4,637,854	4,800,700
Canadian dollar (Cdn\$).....	3,485	168,811
Argentine peso (PAS).....	21,619	-
Chilean peso (Clp\$).....	<u>75,159</u>	<u>118,373</u>
	<u>5,518,239</u>	<u>5,857,384</u>

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

	CONSOLIDATED
In 2006	527,860
In 2007	563,896
In 2008	565,035
In 2009	323,109
In 2010	210,048
After 2010	1,300,426
	<u>3,490,374</u>

a) Events during the year

On June 3, 2004, the placement of the second tranche, of US\$ 128 million (equivalent to R\$ 339,763 at December 31, 2004) of a US\$ 400 million Export Notes Receivable program (equivalent to R\$ 1,061,760 at December 31, 2004) was concluded. This joint program between Gerdau S.A. and Gerdau Açominas 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 subsidiary 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, except for item IV which refers to the Company itself, and have been observed. The penalty for non-compliance is the prepayment of the contracts.

d) Credit lines

The North American subsidiaries have a credit line in the amount of US\$ 350 million, equivalent to R\$ 929,040 at the balance sheet date, falling due in June 2008, which can be drawn in U.S. dollars (at the LIBOR rate plus interest between 2.25% and 2.75% p.a. or US Prime/FED Funds plus interest of 0.5% p.a.) or in Canadian dollars (at the Bankers Acceptance (BA) rate plus interest between 2.35% and 2.85% p.a. or Canadian Prime plus interest of 1.00% p.a.). The distribution of this credit line among the companies is made in proportion to the working capital of each North American subsidiary.

The subsidiary Gerdau Aza S.A. has a credit line for working capital amounting to Clp\$ 28 billion, equivalent to R\$ 133,582 at the balance sheet date, bearing interest of 3.90% p.a., and a credit line for fixed assets in the amount of Clp\$ 6 billion, equivalent to R\$ 28,625 at the balance sheet date, bearing interest of 4.50% p.a.

15- DEBENTURES

ISSUE	GENERAL MEETING	NUMBER		MATURITY	ANUAL RATE	2004		2003	
		ISSUE	IN PORTFOLIO						
3 rd	09.21.1999	9,170	-	07.01.2004	TJLP + 4%	-	-	-	624
Company						-	-	-	624
Current portion - consolidated....						-	-	-	624
Gerdau S.A.									
3 rd - A e B	05.27.1982	144,000	52,946	06.01.2011	CDI	156,387	73,508	156,387	73,508
7 th	07.14.1982	68,400	6,500	07.01.2012	CDI	121,068	21,628	121,068	21,628
8 th	11.11.1982	179,964	65,811	05.02.2013	CDI	145,878	83,566	145,878	83,566
9 th	06.10.1983	125,640	38,234	09.01.2014	CDI	170,954	29,927	170,954	29,927
11 th - A and B	06.29.1990	150,000	97,044	06.01.2020	CDI	98,189	19,249	98,189	19,249
13 th	11.23.2001	30,000	30,000	11.01.2008	CDI less 2%	-	-	-	-
Gerdau Ameristeel Corp.	04.23.1997	125,000	-	04.30.2007	6.50%	232,618	226,021	232,618	226,021
Debentures held by consolidated subsidiaries						(252,982)	(26,916)	(252,982)	(26,916)
Debentures held by the Company ..						(95,622)	-	(95,622)	-
Total Consolidated						<u>576,490</u>	<u>427,607</u>	<u>576,490</u>	<u>427,607</u>
Current portion - consolidated....						2,986	3,651	2,986	3,651
Long-term portion- consolidated.						573,504	423,956	573,504	423,956

The Extraordinary General Meeting of shareholders held on April 30, 2004 approved the cancellation of the 1st issue (7,100 debentures), which were held in treasury.

The Extraordinary General Meeting (EGM) of the subsidiary Gerdau S.A. held on April 29, 2004 approved the cancellation of the 4th issue (42,000 debentures) and 10th issue debentures (6,450 debentures), which were held in treasury.

The same EGM approved the split of the following debenture issues: 3rd (classes A and B), 7th, 8th, 9th and 11th issues (classes A and B). On July 1, 2004, three new debentures were issued for each existing debenture, thus changing their nominal value.

The Extraordinary General Meeting of the subsidiary Seiva S.A. - Florestas e Indústrias held on April 30, 2004 approved the cancellation of the 1st issue debentures, series A and B (12,000 debentures), which were held in treasury.

The Board of Directors' Meeting of the subsidiary Gerdau S.A. held on October 14, 2004 approved the fixed remuneration of the 13th issue debentures at the CDI interest rate less 2% p.a., during the period from November 1, 2004 to October 31, 2005.

The debentures of Gerdau Ameristeel Corporation are convertible into common shares of that subsidiary, up to their maturity date.

The controlling shareholders hold, directly or indirectly, R\$ 181,965 at December 31, 2004 (R\$ 63,216 in 2003) of the outstanding debentures.

16 - FINANCIAL INSTRUMENTS

a) General comments - Metalúrgica Gerdau 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 21;

- **financing** - are explained and presented in Note 14;

- **debentures** - are explained and presented in Note 15; and

- **financial derivatives** - in order to minimize the effects of fluctuations in foreign exchange rates on their liabilities, the subsidiaries Gerdau Açominas S.A. and Dona Francisca Energética S.A. entered into swap contracts that were converted into Brazilian reais on the contract date and linked to changes in the CDI rate and the IGPM, plus additional interest. The subsidiary Gerdau Ameristeel Corporation also entered into swap contracts linked to the London Interbank Offered Rate (LIBOR) plus interest between 6.05% and 6.45% p.a.

The swap contracts are listed below:

CONSOLIDATED				
CONTRACT DATE	PURPOSE	AMOUNT (US\$ THOUSAND)	RATE	MATURITY
07/16/2001 to 07/05/2002	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
04/17/2003	Fixed assets	6,316	IGPM + 12.95%	05/16/2005 to 11/16/2010
04/17/2003	Fixed assets	13,095	97.00% to 100.90% of the CDI	05/16/2005 to 11/16/2013
10/30 a 11/03/2003	Bank notes	200,000	LIBOR + interest between 6.09% to 6.13%	07/15/2011
06/26/2003	Investment	55,000	4.86% to 5.40%	09/02/2005 to 10/02/2006

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	95,702	95,702	25,163	25,163
Debentures	-	-	624	624
Investments	3,018,021	5,979,482	2,029,479	4,199,166
Related parties (assets)	-	-	3,390	3,390
Related parties (liabilities)	266	266	-	-
Treasury shares - Note 23	21,490	45,967	7,049	9,153

	CONSOLIDATED			
	2004		2003	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Financial investments	1,666,178	1,666,178	890,130	890,130
Swap contracts - investments (liabilities)	4,500	4,500	12,303	12,303
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	43,891	43,891	500,118	524,935
Financing - Resolution 4131.....	20,893	20,755	24,243	24,468
Bank notes financing	1,050,835	1,260,376	1,144,601	1,292,733
Fixed asset financing	45,837	45,686	93,172	96,069
Other financing	2,036,949	2,036,949	2,158,241	2,177,487
Debentures	576,490	576,490	427,607	427,607
Investments	112,547	112,547	463,224	463,224
Related parties (assets).....	1,231	1,231	30,509	30,509
Stock options (liabilities) - note 25	-	13,663	-	8,298

The market values of the swap contracts of subsidiaries in Brazil 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/IGPM future rates (liabilities) and adjusted to present value on the balance sheet date, using the projected future CDI/IGPM rate for each maturity. The same methodology is applied for the calculation of the market values of the swap contracts of the subsidiary Gerdau Ameristeel Corporation, using the LIBOR rate.

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. Contracts not linked to such financing have been recorded at their market value under the heading "Other accounts payable", in long-term liabilities.

The Company believes that the balances of the other financial instruments, which are recognized in the books at 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 and its subsidiaries' business

Price risk: this risk is related to the possibility of price variations of the products that the subsidiaries sell or in the raw material prices and other inputs used in the production process. Since the subsidiaries operate in a commodity market, their sales revenues and cost of sales may be affected by the changes in the international prices of their products or materials. In order to minimize this risk, the subsidiaries constantly monitor 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 assets (investments) and liabilities. In order to minimize possible impacts resulting from interest rate fluctuations, the Company and its subsidiaries have adopted a policy of diversification, alternating between fixed rates and variable rates (such as LIBOR and the CDI) and periodically renegotiate 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 addition to the foreign investments which are a natural hedge, the Company and its subsidiaries use "hedge" instruments, usually swaps contracts, as described in item "a" above, to manage the effects of these fluctuations.

Credit risk: this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales or investments at financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in detail the financial and equity position of their customers, establishing a credit limit and constantly monitoring their balances. In relation to financial investments, the Company and

its subsidiaries invest 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 Credit Committee.

17 - FINANCIAL EXPENSES/INCOME, NET

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Financial income				
Financial investments	1,227	8,574	136,413	142,746
Interest received	15	1,674	29,934	69,913
Monetary variations - assets	1	-	3,327	3,972
Foreign exchange variations - assets	-	-	(34,671)	(79,356)
Foreign exchange swaps - assets	-	-	3,915	(62,884)
Other financial income	8,996	1,652	110,343	12,363
Total financial income	<u>10,239</u>	<u>11,900</u>	<u>249,261</u>	<u>86,754</u>
Financial expenses				
Interest on debt	(844)	(14)	(417,041)	(593,308)
Monetary variations - liabilities	(5,147)	(5,602)	(22,983)	(29,115)
Foreign exchange variations - liabilities	-	-	197,607	716,672
Foreign exchange swaps - liabilities	-	-	(44,127)	(741,389)
Other financial expenses	(861)	-	(111,098)	(60,990)
Total financial expenses	<u>(6,852)</u>	<u>(5,616)</u>	<u>(397,642)</u>	<u>(708,130)</u>

18 - TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Income tax and social contribution on net income	843	710	202,962	39,600
Social charges on payroll	149	546	49,368	49,021
Value-added tax on sales and services (ICMS)	-	-	32,131	12,865
Social contribution on revenues (COFINS)	1,014	2,281	33,622	16,494
Excise tax (IPI)	-	-	14,114	2,966
Social integration program (PIS)	220	-	6,903	3,923
Income tax and social contribution withheld at source	-	-	8,211	23,787
Taxes payable in installments	-	-	11,819	15,427
Other	21	-	32,055	14,359
	<u>2,247</u>	<u>3,537</u>	<u>391,185</u>	<u>178,442</u>

19 - TAX RECOVERY PROGRAM (REFIS) AND SPECIAL INSTALLMENT PAYMENT PROGRAM (PAES)

a) REFIS

On December 6, 2000, the subsidiary Gerdau S.A. enrolled in the REFIS program to pay the Social Integration Program (PIS) and the Social Contribution on Revenues (COFINS) contributions in installments. The balances of these tax liabilities are recorded in Taxes and contributions payable, in current liabilities, and in Other accounts payable, in long-term liabilities. The balances of the renegotiated taxes, which were originally divided into 60 installments of which 5 installments are not yet due, are restated by the Long-Term Interest Rate (TJLP) rate, and are as follows at the year end:

	COMPANY AND CONSOLIDATED					
	2004			2003		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
PIS	2,608	2,551	5,159	9,895	6,494	16,389
COFINS	620	605	1,225	2,351	1,540	3,891
Total	<u>3,228</u>	<u>3,156</u>	<u>6,384</u>	<u>12,246</u>	<u>8,034</u>	<u>20,280</u>
Current	3,228	3,156	6,384	8,644	5,671	14,315
Long-term	-	-	-	3,602	2,363	5,965

Taxes, contributions and other liabilities are paid by the subsidiary Gerdau S.A. on their due dates, which is a basic requirement to remain eligible for the REFIS program.

As guarantee for this installment payment program, the subsidiary Gerdau Açominas S.A. pledged the land and buildings of the Piratini plant, located in the municipality of Charqueadas, in the state of Rio Grande do Sul, amounting to R\$ 78,494.

The total income tax and social contribution credits from third parties offset against fines and interest on the consolidation of the REFIS debts on December 6, 2000 totaled R\$ 57,040 and were purchased for R\$ 4,351. The subsidiary's own tax credits were not used.

The constitutionality of the use of credits of R\$ 40,118 of the total purchased is being challenged in court. This is because the Federal Revenue authorities understand that tax credits must first be used to offset the assignor's own debts, only transferring the excess to the assignee. This understanding, based solely on a REFIS Management Committee Resolution, edited subsequently to the subsidiary's enrollment in the program, does not comply with the legal order. In fact, the law which established the Program authorized, with no conditions, the purchase of third party tax credits for offset against own liabilities.

b) PAES

The proportionally consolidated (52%) subsidiary Dona Francisca Energética S.A. enrolled in the PAES, established by Law 10684/03, at the Federal Revenue Secretariat, to settle Corporate Income Tax (IRPJ), Social Contribution on Net Income (CSLL), Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) liabilities. The balances of these tax liabilities are recorded in Taxes and contributions payable, in current liabilities, and in Other accounts payable, in long-term liabilities. The balances of the renegotiated taxes, which were divided into 180 installments of which 161 are not yet due, are restated by the TJLP and are as follows at the year end:

	CONSOLIDATED					
	2004			2003		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
IRPJ.....	20,303	3,160	23,463	21,816	1,255	23,071
CSLL.....	7,360	1,145	8,505	7,908	455	8,363
PIS.....	720	112	832	774	45	819
COFINS.....	3,326	518	3,844	3,574	206	3,780
Total.....	<u>31,709</u>	<u>4,935</u>	<u>36,644</u>	<u>34,072</u>	<u>1,961</u>	<u>36,033</u>
Current.....	2,364	368	2,732	2,363	136	2,499
Long-term.....	29,345	4,567	33,912	31,709	1,825	33,534

Dona Francisca Energética S.A. pays its taxes, contributions and other liabilities on their due dates, which is a basic requirement to remain eligible for the PAES program.

20 - 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 that 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
a) Tax contingencies					
Eletróbrás.....	(a.1)	-	-	50,456	50,456
Finsocial.....	(a.2)	-	-	6,898	6,948
ICMS.....	(a.3)	-	-	17,300	14,346
Social contribution on net income.....	(a.4)	-	198	7,333	40,954
Corporate income tax.....	(a.5)	-	25	19,993	101,159
INSS.....	(a.6)	-	-	24,900	17,375
PIS.....	(a.7)	469	1,382	2,372	3,739
COFINS.....	(a.7)	-	-	6,935	6,935
Emergency Capacity Charge.....	(a.8)	-	-	25,563	10,074
Extraordinary Tariff Recomposition.....	(a.8)	-	-	13,037	5,847
FGTS and other tax contingencies.....	(a.9)	-	-	1,503	2,330
(-) Judicial deposits.....	(a.10)	-	-	<u>(73,938)</u>	<u>(155,138)</u>
		<u>469</u>	<u>1,605</u>	<u>102,352</u>	<u>105,025</u>
b) Labor contingencies.....	(b.1)	-	-	49,798	29,609
(-) Judicial deposits.....	(b.2)	-	-	<u>(10,538)</u>	<u>(10,244)</u>
		-	-	<u>39,260</u>	<u>19,365</u>
c) Civil contingencies.....	(c.1)	195	195	100,559	99,688
(-) Judicial deposits.....	(c.2)	-	-	<u>(1,207)</u>	<u>(1,063)</u>
		<u>195</u>	<u>195</u>	<u>99,352</u>	<u>98,625</u>
Total liabilities provided.....		<u><u>664</u></u>	<u><u>1,800</u></u>	<u><u>240,964</u></u>	<u><u>223,015</u></u>

INSS - National Institute of Social Security

FGTS - Government Severance Indemnity Fund for employees

a) Tax contingencies

a.1) Of the total provision, R\$ 50,456 (consolidated) refers to the contingency of compulsory loans to Eletrobrás, the constitutionality of which is being questioned by the subsidiary Gerdau S.A. In March 1995, the Federal Supreme Court judged the proceedings against other taxpayers. Certain of the Company's proceedings are pending decision, but the outcomes are already foreseeable, in view of the prior decisions. The subsidiary Gerdau S.A. established a provision related to "compulsory loans", taking into consideration that, although the payment to Eletrobrás was made as a loan: (i) the reimbursement to the company would probably be in the form of shares of Eletrobrás; (ii) the conversion will be made based on the net asset book value of the shares; and (iii) based on the current available information, the shares of Eletrobrás are valued at substantially less than the net asset book value.

a.2) R\$ 6,898 (consolidated) relating to the unconstitutionality of the Social Investment Fund (FINSOCIAL). Although the Supreme Court has confirmed the constitutionality of the tax at the rate of 0.5%, some of the Company's subsidiaries claims are still pending judgment, most of them in the Superior Courts.

a.3) R\$ 17,300 (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\$ 7,333 (consolidated) relating to social contribution on net income. The amounts refer to challenges of the constitutionality of the contribution in 1989, 1990 and 1992. Some proceedings are pending decision, most of them in the Superior Courts.

a.5) R\$ 19,993 (consolidated), relating to Corporate Income Tax, challenged at the administrative sphere. Considering the many legal decisions unfavorable to the unconstitutionality of the limitation of the offset of income tax and social contribution losses to 30% of net income, the subsidiary Gerdau Açominas S.A. 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 subsidiary is successful, it will plead the offset of the amounts overpaid.

a.6) R\$ 24,900 (consolidated) on contributions due to the INSS which correspond to suits for annulment by the subsidiary Gerdau S.A. with judicial deposits of practically the whole amount involved, in progress in the Federal Court of the First Instance in the state of Rio de Janeiro.

The provision also includes lawsuits questioning the position of the INSS in terms of charging INSS contributions on profit sharing payments made by the subsidiary Gerdau Açominas S.A., 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 subsidiary because it understands that the company is jointly liable. The assessments were maintained at the administrative level, and Gerdau Açominas S.A. filled annulment actions with the judicial deposit of the corresponding amount, based on the understanding that the right to assess part of the charge had prescribed and that there is no such liability.

a.7) R\$ 469 (Company) and R\$ 2,372 (consolidated), relating to contributions for the Social Integration Program (PIS), and R\$ 6,935 (consolidated) to the Social Contribution on Revenues (COFINS), in connection with lawsuits questioning the constitutionality of Law 9718, which changed the calculation basis of these contributions. These suits are in progress in the Federal Regional Court of the 2nd Region and the Federal Supreme Court.

a.8) R\$ 25,563 (consolidated) relating to the Emergency Capacity Charge (ECE), as well as R\$ 13,037 (consolidated) relating to the Extraordinary Tariff Recomposition (RTE), included in the electric energy bills of the subsidiaries' 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 1st and 2nd Regions. The subsidiaries have fully deposited in court the amount of the disputed charges.

a.9) R\$ 1,503 (consolidated) relating to a lawsuit brought by the subsidiary Gerdau Açominas S.A. 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 subsidiary. The amount provided is fully deposited in court.

a.10) The judicial deposits, representing restricted assets of the subsidiary Gerdau S.A., 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\$ 73,938 (consolidated), are classified as a reduction of the provision for tax contingencies recorded in the books.

b) Labor contingencies

b.1) The Company's subsidiaries are also defending labor claims, for which there is a provision of R\$ 49,573 (consolidated) at December 31, 2004. 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\$ 10,313 at December 31, 2004 (consolidated), are classified as a reduction of the provision for labor contingencies.

c) Civil contingencies

c.1) The Company and its subsidiaries are also defending in court civil claims arising in the normal course of its own and the subsidiaries' operations, including claims arising from work accidents, in a total amount at December 31, 2004 of R\$ 195 (Company) and R\$ 100,559 (consolidated) as contingent liability for these claims.

The provision refers mainly to an issue involving the jointly-owned (52%) subsidiary Dona Francisca Energética S.A. According to a resolution of the Brazilian Electricity Regulatory Agency (ANEEL), the operations of the subsidiary are restricted to the South of Brazil submarket. Since some of its transactions were carried out in the remaining submarkets, Dona Francisca Energética S.A. may have to acquire the energy it sells from third parties. The subsidiary challenges in court the validity of the ANEEL resolution and has obtained a favorable preliminary injunction.

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

II) Contingent liabilities not provided

a) Tax contingencies

a.1) The subsidiary Gerdau S.A. is defendant in assessments filed by the state of Minas Gerais demanding ICMS tax payments arising mainly from the sales of products to commercial exporters. The restated amount of the lawsuits totals R\$ 32,848. The Company has not recorded any provision for contingency in relation to these claims since it considers this tax is not payable, because products for export are exempted from ICMS.

a.2) The subsidiaries Gerdau S.A. and Gerdau Açominas S.A. are defendants in assessments filed by the state of Minas Gerais, which demand ICMS tax payments on the export of semi-finished manufactured products. The subsidiary Gerdau Açominas S.A. is also the petitioner of an annulment action. The total amount demanded is R\$ 249,742. The companies have not recorded any provision for contingency in relation to these claims since they consider 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.3) Also, R\$ 68,431 are being demanded due to the understanding of the Federal Revenue Secretariat that the transactions carried out by the subsidiary Gerdau Açominas S.A., under the drawback concession granted by DECEX, were not in conformity with the legislation. Gerdau Açominas 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, Gerdau Açominas S.A. considers an unfavorable outcome to be remote and, for this reason, has not recorded any provision for the contingency.

b) Civil contingencies

b.1) Two civil construction syndicates in the state of São Paulo alleged that the subsidiary Gerdau S.A. and other long steel producers in Brazil divide customers among them, violating the antitrust legislation. After investigations carried out by the National Secretariat of Economic Law (SDE) and based on public hearings, the SDE is of the opinion that a cartel exists. This conclusion was also supported by an earlier opinion by the Secretariat for Economic Monitoring (SEAE). The process has now been forwarded to the Administrative Council for Economic Defense (CADE) for final decision.

The subsidiary Gerdau S.A. denies having engaged in any type of anti-competitive behavior and believes, based on information available, including the opinion of its legal advisors, that the administrative process until now includes many irregularities, some of which are impossible to resolve. For example, the investigations carried out by SDE did not follow the due legal course and the representatives of the SDE influenced certain witnesses who testified in the process. In addition, the SDE report was issued before the subsidiary Gerdau S.A. had the chance to reply to the closing arguments, which indicates that there was a bias in the judgment made by the SDE. The same applies to the SEAE report, which does not analyze the economic issues and is based exclusively on the witnesses' testimony.

These irregularities, which also reflect non-compliance with the related constitutional provisions, will no doubt affect the administrative decision by CADE, based on the conclusions presented by the antitrust authorities until now. The subsidiary Gerdau S.A. has pointed out and tried to combat all these irregularities and will continue doing so in relation to the allegations and the irregularities in the administrative process, believing in a favorable outcome to this process, if not in the administrative sphere, possibly in the judicial sphere.

Because of the above, no provision has been recorded for this case. According to Brazilian legislation, fines of up to 30% of gross revenues in the prior fiscal years may be applied to the subsidiary Gerdau S.A. and, if personal responsibility of an executive is proven, such executive may be penalized by 10% to 50% of the fine applied to the company. There are no precedents for fines exceeding 4%. In a similar case involving flat steel companies, the fine was 1%.

b.2) A civil lawsuit has been filed against the subsidiary 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 was returned to the TAMG for judgment of the appeal requesting clarification of the decision.

Gerdau Açominas S.A. believes that any loss from the case is remote, since it understands that a change in the judgment is unlikely.

b.3) A civil lawsuit has been filed by Sul America Cia. Nacional de Seguros against the subsidiary Gerdau Açominas S.A. 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 subsidiary

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 subsidiary (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, and this matter is therefore 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 subsidiary 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 the payment of the amount 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 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 subsidiary'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

a.1) The subsidiary Gerdau S.A. believes that the realization of certain contingent gains is probable. Among them is a court-order debt security issued in 1999 in its favor by the state of Rio de Janeiro in the amount of R\$ 26,580, arising from an ordinary lawsuit against the 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 credit is not expected in 2004 and, also, there is no expectation of realization in 2005 and following years. For this reason, this gain is not recognized in the financial statements.

a.2) The Company's subsidiaries have filed several ordinary proceedings relating to the correct basis of calculation of PIS under Complementary Law 07/70, due to the declarations of unconstitutionality of Decree Laws 2445/88 and 2449/88. The companies expect to recover the taxes incorrectly paid. The amounts under discussion total R\$ 84,245.

a.3) Also, the subsidiaries Gerdau S.A., Gerdau Açominas S.A. and Margusa - Maranhão Gusa S.A. expect to recover IPI premium credits. Gerdau S.A. and the subsidiary Margusa Maranhão Gusa S.A. have filed administrative appeals for recovery, which are pending judgment. With regards to the subsidiary Gerdau Açominas S.A., the proceedings were directed to the courts, with an unfavorable judgment. Currently, the process awaits judgment of the appeal filed by the subsidiary. The Company estimates the credits at R\$ 394,002 but no accounting recognition has been made thereof because of uncertainty as to their realization.

21 - RELATED PARTIES

a) Analysis of loan balances

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Gerdau Açominas S.A.	(381)	3,390	-	-
Fundação Gerdau	-	-	1,305	16,762
Gerdau S.A.	115	-	-	-
Sipar Aceros S.A. and other	-	-	(74)	13,747
Total	<u>(266)</u>	<u>3,390</u>	<u>1,231</u>	<u>30,509</u>

b) Commercial transactions - the Company paid R\$ 300 (R\$ 300 in 2003) to the associated company Grupo Gerdau Empreendimentos Ltda. for the use of the Gerdau trademark, as well as R\$ 502 (R\$ 524 in 2003) to the parent company Indac - Ind. Adm. e Comércio S.A. related to guarantees.

c) Guarantees granted - the Company is the guarantor of the subsidiary GTL Financial Corp., in the amount of US\$ 50,000, equivalent to R\$ 132,720 at the balance sheet date. The subsidiary Gerdau S.A. is the guarantor of the Euro Commercial Paper program of the subsidiary GTL Trade Finance Inc., of US\$ 110 million, equivalent to R\$ 291,984 at the balance sheet date. The subsidiary is also the guarantor of financing agreements of the subsidiary GTL Financial Corp., of US\$ 5,000, equivalent to R\$ 13,272, and securitization operations of the subsidiary Gerdau Açominas Overseas Ltda., of US\$ 233 million, equivalent to R\$ 618,475 on the balance sheet date. The subsidiary Gerdau Açominas S.A. is the guarantor of the vendor financing loan agreement of the associated company Banco Gerdau S.A., in the amount of R\$ 68,138.

22 - 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
Pension plan actuarial liability - defined benefit.....	-	-	154,199	162,719
Actuarial liability with post-employment health benefit	-	-	130,283	105,964
Retirement and discharge benefits payable.....	-	-	9,996	10,187
Total liabilities	-	-	294,478	278,870
Unrecognized actuarial assets	1,964	1,892	165,510	125,107

a) Pension plan - defined benefit

The Company and other Group subsidiaries in Brazil are the co-sponsors of defined benefit pension plans that cover substantially all employees in Brazil (“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 of Gerdau Açominas S.A. 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 Company of the other units of Gerdau Açominas S.A. and other subsidiaries in Brazil. The assets of the Gerdau Plan comprise investments in bank deposit certificates, federal public securities and marketable securities. Also, the Canadian and American subsidiaries sponsor defined benefit plans (Canadian Plan and American Plan) that cover substantially all of their employees.

The Canadian and American plans are managed by CIBC Mellon and Wells Fargo, respectively, to complement the social security benefits of employees of Gerdau Ameristeel Corporation and its subsidiaries, The assets of the Plans mainly comprise marketable securities.

The sponsors’ contributions to the pension plans were R\$ 13 in 2004 and R\$ 11 in 2003 for the Company and R\$ 68,288 in 2004 and R\$ 63,733 in 2003 for the consolidated.

The current expenses of the defined pension plan are as follows:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Cost of current service	39	60	49,884	41,261
Interest cost	124	700	125,054	110,212
Expected return of plan assets.....	(204)	(1,310)	(162,001)	(122,362)
Amortization of unrecognized liability	-	-	462	467
Amortization of past service costs	-	-	778	1,332
Amortization of (gain) loss	(18)	-	2,550	2,764
Employees’ expected contribution	-	-	(4,383)	(3,576)
Pension plan cost (benefit), net	(59)	(550)	12,344	30,098

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

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Total liabilities	(7,065)	(6,223)	(1,790,639)	(1,623,000)
Fair value of plan assets	14,993	12,366	1,867,506	1,663,567
Net assets.....	7,928	6,143	76,867	40,567
Unrecognized (gains) losses	(5,964)	(4,251)	(96,827)	(91,405)
Past service costs	-	-	26,342	7,722
Other	-	-	4,929	5,504
Total assets (liabilities), net.....	1,964	1,892	11,311	(37,612)
Actuarial asset	1,964	1,892	165,510	125,107
Pension plan liability recorded in balance sheet	-	-	(154,199)	(162,719)
Assets (liabilities), net	1,964	1,892	11,311	(37,612)

Changes in plan assets and actuarial liabilities were as follows:

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Changes in benefit				
Benefit liabilities at the beginning of the year.....	6,223	6,901	1,623,000	1,554,443
Cost of service	39	60	49,884	41,261
Interest cost.....	124	700	125,054	110,212
Actuarial loss (gain)	794	(1,336)	88,360	75,148
Payment of benefits.....	(115)	(102)	(69,534)	(58,588)
Past service costs due to changes in the plan	-	-	10,516	-
Foreign exchange effect on foreign companies.....	-	-	(45,000)	(99,476)
Initial liability recognition adjustment	-	-	8,359	-
Benefit liabilities at the end of the year	<u>7,065</u>	<u>6,223</u>	<u>1,790,639</u>	<u>1,623,000</u>

	COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Changes in plan assets				
Fair value of plan assets at the beginning of the year.....	12,366	10,515	1,663,567	1,396,928
Return on plan assets	2,729	1,942	232,043	314,371
Sponsor contributions	13	11	68,288	63,733
Participant contributions.....	-	-	5,202	4,232
Payment of benefits.....	(115)	(102)	(69,534)	(58,588)
Foreign exchange effect on foreign companies.....	-	-	(32,060)	(57,109)
Fair value of plan assets at the end of the year.....	<u>14,993</u>	<u>12,366</u>	<u>1,867,506</u>	<u>1,663,567</u>

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	NORTH AMERICAN PLAN
	Average discount rate	11.30%	11.30%
Increase in compensation	9.20%	8.675%	2.50% - 4.25%
Expected rate of return on assets.....	12.35%	12.35%	7.25% - 8.40%
Mortality chart	GAM 83 (-1 year)	AT-83	GAM 83
Disabled mortality chart	RRB 1944	AT-83	RRB 1977
Turnover rate.....	Based on service and salary level	Null	Based on age and service (plan experience)

b) Pension plan - defined contribution

The Company and its subsidiaries in Brazil are also the co-sponsors of a defined contribution pension plan administered by Gerda - Sociedade de Previdência Privada. Contributions are based on a percentage of the compensation of employees.

The foreign subsidiary Gerda AmeriSteel US Inc. has a defined contribution plan, the contributions to which are equivalent to 50% of the amount paid by the participants, limited to 4% of salary. The other companies do not have this type of pension plan.

The total cost of this plan was R\$ 55 in 2004 and R\$ 62 in 2003 for the Company and R\$ 12,005 in 2004 and R\$ 9,827 in 2003 consolidated.

c) Other post-employment benefits

The Company estimates that the amount payable to executives on their retirement or discharge totals R\$ 9,996 (consolidated) at December 31, 2004 (R\$ 10,187 in 2003 - consolidated).

The American Plan includes, in addition to pension benefits, specific health benefits for employees who retire after a certain age and with a certain number of years of service. The American subsidiary has the right to change or eliminate these benefits, and the contributions are based on amounts actuarially calculated.

The composition of the net periodic cost for the post-employment health benefits is as follows:

	CONSOLIDATED	
	2004	2003
Cost of service	3,007	2,542
Interest cost.....	5,715	6,492
Amortization of past service costs.....	(563)	-
Amortization of (gain) loss.....	80	-
Expense for post retirement health benefits, net	<u>8,239</u>	<u>9,034</u>

The status of the fund for post-employment health benefits is as follows:

	CONSOLIDATED	
	2004	2003
Plan assets at market value.....	-	-
Projected benefit liabilities.....	<u>(130,559)</u>	<u>(111,390)</u>
Fund status.....	(130,559)	(111,390)
Unrecognized gains and losses, net	8,101	5,426
Past service costs	<u>(7,825)</u>	<u>-</u>
Post-retirement health benefit liabilities recorded in the balance sheet.....	<u>(130,283)</u>	<u>(105,964)</u>

The changes in plan assets and actuarial liabilities was as follows:

	CONSOLIDATED	
	2004	2003
Changes in projected benefit liabilities		
Projected benefit liabilities at the beginning of the year	111,390	112,991
Purchase of North Star.....	23,136	-
Cost of service	3,007	2,542
Interest cost.....	5,715	6,492
Participant contributions.....	1,946	1,870
Actuarial loss	4,759	3,432
Administrative benefits and expenses paid	(6,639)	(6,528)
Foreign exchange effect	(4,364)	(9,409)
Initial liability recognition adjustment	<u>(8,391)</u>	<u>-</u>
Projected benefit liabilities at the end of the year	<u>130,559</u>	<u>111,390</u>

	CONSOLIDATED	
	2004	2003
Changes in plan assets		
Plan assets at the beginning of the year.....	-	-
Sponsor contributions.....	4,693	4,658
Participant contributions.....	1,946	1,870
Administrative benefits and expenses paid	<u>(6,639)</u>	<u>(6,528)</u>
Plan assets at the end of the year	<u>-</u>	<u>-</u>

The assumptions adopted in the accounting for post-employment health benefits were as follows:

	NORTH AMERICAN PLAN
Average discount rate	5.75% - 6.00%
Health treatment - rate for the next year	9.50% - 13.00%
Health treatment - rate for cost decrease to be reached from 2010 to 2013	4.50% to 5.50%

23 - SHAREHOLDERS' EQUITY

a) Capital - authorized capital at December 31, 2004, comprises 50,000,000 common shares (50,000,000 at December 31, 2003) and 100,000,000 preferred shares (100,000,000 at December 31, 2003), with no par value.

The Extraordinary General Meeting of shareholders held on April 30, 2004 approved the capital increase of R\$ 384,000 through the capitalization of the reserve for investments and working capital, with a bonus of 30% on the shares on that date, representing 12,475,319 new shares (4,158,440 common and 8,316,879 preferred). Also, a split of 70% of these new shares was approved, with the issue of 29,109,076 shares (9,703,025 common and 19,406,051 preferred).

At December 31, 2004, 27,722,930 common shares (13,861,465 at December 31, 2003) and 55,445,860 preferred shares (27,722,930 at December 31, 2003) are subscribed and paid-up, totaling R\$ 1,664,000 (R\$ 1,280,000 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) Treasury stock - at December 31, 2004, the Company had 682,000 preferred shares (137,500 preferred shares in 2003), held in treasury for subsequent sale in the market or cancellation, totaling R\$ 21,490 (R\$ 7,049 in 2003).

c) 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 reductions of the income tax and social contribution on net income charges for the year was R\$ 55,250 (R\$ 58,514 in 2003). 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\$ 433,879, shown as follows:

	2004	2003
Net income for the year	1,437,075	575,179
Transfer to legal reserve	(71,855)	(28,759)
Adjusted net income	<u>1,365,220</u>	<u>546,420</u>

DISTRIBUTIONS DURING THE YEAR						
PERIOD	NATURE	R\$/SHARE	CREDIT	PAYMENT	2004	2003
1 st quarter	Interest	1.10	3/30/2004	5/18/2004	45,368	34,307
2 nd quarter	Interest	0.62	6/30/2004	8/17/2004	51,142	23,287
	Dividends	0.46	6/30/2004	8/17/2004	37,944	-
3 rd quarter	Interest	0.80	8/13/2004	11/17/2004	65,990	34,099
	Dividends	0.91	11/3/2004	11/17/2004	75,062	-
4 th quarter	Interest				-	80,407
	Dividends	1.92	2/11/2005	2/22/2005	158,373	-
Interest on equity and dividends					<u>433,879</u>	<u>172,100</u>
% interest/dividends paid or credited					32%	31%
Credit per share (R\$)					5,26	4,15
Outstanding shares (thousands)					82,487	41,447

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

24 - STATUTORY PROFIT SHARING

a) 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;

b) 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.

25 - LONG-TERM INCENTIVE PLANS

I) Gerdau S.A.

The Extraordinary General Meeting of shareholders held on April 30, 2003 decided, based on a previously agreed plan and within the limit of the authorized capital, to grant options to purchase preferred shares to management, employees or persons who render services to the subsidiary or the companies under its control, and approved the formation of the Long-Term Incentive Program that represents a new form of compensation of the strategic executives of the subsidiary. The options should be exercised in a maximum of five years after the grace period.

a) Summary of changes in the plan:

	STOCK OPTIONS GRANTS (NUMBER OF SHARES)				TOTAL
	2003	2003	2004	2004	
Opening balance at December 31, 2003.....	403,228	280,840	-	-	684,068
Grants in 2004.....	-	-	2,430	171,125	173,555
Share bonus on April 29, 2004.....	403,229	280,840	2,429	171,125	857,623
Closing balance at December 31, 2004.....	<u>806,457</u>	<u>561,680</u>	<u>4,859</u>	<u>342,250</u>	<u>1,715,246</u>
Exercise price - R\$.....	11.94	11.94	30.50	30.50	
Grace period.....	3 anos	-	3 anos	-	
Grace period.....	-	5 anos	-	5 anos	

The subsidiary Gerdau S.A. has a total of 1,573,200 preferred shares in treasury at December 31, 2004, These shares can be used for this plan.

b) Plan status at December 31

	STOCK OPTIONS GRANTS		
	2004	2003	AVERAGE
Total stock options granted.....	347,109	1,368,137	
Exercise price - R\$.....	30.50	11.94	15.70
Fair value of options date of grant - R\$ per option (*).....	8.65	3.72	4.72
Average term of option to be exercised (years).....	3.68	1.82	2.26

(*) Calculated using the Black-Scholes model

The percentage of dilution in interest that the current shareholders may experience if all options are exercised is approximately 0.6%.

II) Gerdau Ameristeel Corporation - ("Gerdau Ameristeel")

Gerdau Ameristeel Corporation and its subsidiaries have stock compensation plans for their employees, as follows:

a) Former Co-Steel Plan

According to the terms of the Co-Steel Plan, the Stock-Based Option Plan, the company was authorized to grant purchase options to employees and directors up to the limit of 3,041,335 common shares. The exercise price was based on the closing price of the common shares in the market on the day prior to the issue of the option. The options have a maximum term of ten years and are granted during various periods, as determined by the administrator of the plan at the date of the grant, up to April 13, 2008.

b) Gerdau AmeriSteel US Inc. ("AmeriSteel") Plans

According to the terms of the Transaction Agreement relating to the acquisition of Co-Steel, the minority shareholders of AmeriSteel exchanged their shares and stock options for shares and stock options of Ameristeel at the ratio of 9,4617 shares and stock options for each share or stock option of AmeriSteel. This exchange occurred on March 31, 2003.

b.1) Stakeholder Plan

In March 2000, the Board of Directors of AmeriSteel approved long-term incentive plan available to the executive management (Stakeholder Plan) to assure that the interests of the senior management of AmeriSteel are in line with those of the AmeriSteel shareholders. The awards are determined by a formula based on the return on employed capital of AmeriSteel in a given year of the plan. The awards are granted and paid over a period of four years. The participants may choose payment in cash or in shares of AmeriSteel and Gerdau, for which a premium of 25% is given, if chosen. Expenses related to the benefits for the years ended December 31, 2004 and 2003 totaled US\$ 1,300 thousand (R\$ 3,450) and US\$ 150 thousand (R\$ 433), respectively. A premium of approximately US\$ 14,000 thousand (equivalent to R\$ 37,161) was recorded at December 31, 2004 and will be granted on March 1, 2005. This premium will be provided in accordance with the payment schedule established by the plan.

b.2) SAR Plan

In July 1999, the Board of Directors of AmeriSteel approved the SAR/Shares Purchase Plan (SAR Plan) available to basically all employees. The SAR Plan authorizes the sale of 946,170 common shares to the employees during three offer periods, from July to September in 1999, 2002 and 2005. The employees who purchase the shares are rewarded with stock appreciation rights (SARs) equal to four times the number of shares purchased. SARs at market value were granted at the date of grant, determined based on an independent appraisal at the end of the prior year. SARs can be exercised at 25% annually as from the date of the grant, to be exercised over a period of ten years as from the date of the grant.

In July 2002, the Board of Directors of AmeriSteel approved the issue of new purchase options under the SAR Plan, which were granted to the executive directors, with the exercise price determined by the fair value at the date of grant. A total of 6,244,722 SARs were authorized and issued. One-third of all awarded options and common shares are vested two years as from the date of concession, and one third after each subsequent two-year period. The options may be exercised in up to ten years after the date of concession.

At December 31, 2004, an expense related to this plan of US\$ 20,700 thousand, equivalent to R\$ 54,946, was recorded in the consolidated financial statements (at December 31, 2003, an expense of US\$ 9,400 thousand, equivalent to R\$ 27,158 was recorded).

b.3) Equity Ownership

In September 1996, the Board of Directors of AmeriSteel approved the Equity Ownership Plan of AmeriSteel Corporation (the "Equity Ownership" Plan), which grants common shares, purchase options for common shares and SARs. The maximum number of shares that may be issued under this plan is 4,152,286, AmeriSteel granted 4,667,930 incentive stock options and 492,955 common shares under the Equity Ownership Plan up to December 31, 2004. One-third of all options and common shares issued become vested two years from the date of the grant, and one third after each subsequent two-year period. All grants were carried out at the market value of the common shares at the date of grant, determined based on an independent appraisal at the end of the prior year. The options may be exercised for ten years as from the date of the grant.

b.4) Purchase Plan

In May 1995, the Board of Directors of AmeriSteel approved an option/purchase plan (the "Purchase Plan"), available to essentially all employees. The employees who purchased shares were rewarded with options for six times the number of shares purchased. A total of 356,602 shares were sold under the Purchase Plan at a purchase price of US\$ 1.12 per share. The options were granted at market value at the date of the grant, determined based on an independent appraisal at the end of the prior year. A total of 2,139,612 options were granted under the Purchase Plan. No options are available for future grant. All shares granted can already be exercised, which may occur for ten years as from the date of the grant.

A summary of the Gerdau Ameristeel plans is as follows:

	2004		2003	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE - R\$	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE - R\$
Available at the beginning of the year.....	3,606,570	17.01	1,367,400	26.87
Exchange of Ameristeel Plan for options of the Gerdau Ameristeel Plan (*)	-	-	2,660,601	6.21
Exercised	(374,609)	5.04	-	-
Cancelled	(76,973)	5.10	-	-
Expired	(321,700)	51.65	(421,431)	56.98
Available at the end of the year.....	<u>2,833,288</u>	<u>15.77</u>	<u>3,606,570</u>	<u>18.52</u>

(*) Exchange mentioned in item "b" above.

The table below summarizes the information on the purchase options of Gerdau Ameristeel shares available at December 31, 2004:

EXERCISE PRICE (R\$)	AVAILABLE QUANTITY	AVERAGE GRACE PERIOD	WEIGHTED AVERAGE EXERCISE PRICE - R\$	QUANTITY EXERCISABLE
				AT DECEMBER 31, 2004
3.50 to 3.80	752,829	4.40	3.66	597,086
4.78 to 5.04	824,536	5.90	4.88	497,369
5.60 to 7.86	563,923	4.50	11.89	563,923
41.01 to 49.61	342,500	2.10	44.59	342,500
53.25 to 53.49	<u>349,500</u>	1.70	53.49	<u>349,500</u>
	<u>2,833,288</u>			<u>2,350,378</u>

The effect on net income for the year and shareholders' equity would have been as follows, had the expenses for the option plans of Gerdau S.A. and Gerdau Ameristeel Corporation been recorded:

	CONSOLIDATED	
	NET INCOME	SHAREHOLDERS EQUITY
Balances based on financial statements	3,341,097	2,961,034
Expenses for the period*	<u>(2,649)</u>	<u>(8,383)</u>
Proforma balances.....	<u>3,338,448</u>	<u>2,952,651</u>

*using the fair value method (Black-Scholes model)

26 - CALCULATION OF EBITDA

	CONSOLIDATED	
	2004	2003
Gross profit.....	6,245,024	3,290,221
Selling expenses.....	(455,175)	(448,131)
General and administrative expenses	(1,050,953)	(804,501)
Depreciation and amortization.....	<u>766,819</u>	<u>605,045</u>
EBITDA.....	<u>5,505,715</u>	<u>2,642,634</u>

27 - INFORMATION BY GEOGRAPHIC AREA AND BUSINESS SEGMENT
Information by geographic area:

	GEOGRAPHIC ÁREA							
	BRAZIL		SOUTH AMERICA (*)		NORTH AMERICA		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003	2004	2003
Gross sales revenues	12,914,377	9,024,250	1,039,986	652,829	9,453,210	6,105,888	23,407,573	15,782,967
Net sales revenues	9,975,760	7,306,927	763,865	490,122	8,857,637	5,569,912	19,597,262	13,366,961
Cost of sales	(5,668,217)	(4,444,848)	(488,120)	(325,333)	(7,195,901)	(5,306,559)	(13,352,238)	(10,076,740)
Gross profit	4,307,543	2,862,079	275,745	164,789	1,661,736	263,353	6,245,024	3,290,221
Selling expenses	(400,317)	(407,717)	(7,079)	(5,140)	(47,779)	(35,274)	(455,175)	(448,131)
General and administrative expenses	(751,200)	(554,218)	(45,934)	(33,492)	(253,819)	(216,791)	(1,050,953)	(804,501)
Financial income (expenses), net	33,673	(437,013)	(4,491)	(3,831)	(177,563)	(180,532)	(148,381)	(621,376)
Operating profit (loss)	3,022,950	1,197,824	219,272	120,012	1,194,708	(165,655)	4,436,930	1,152,181
Net income (loss) for the year	2,270,548	1,224,769	174,240	93,379	896,309	(61,274)	3,341,097	1,256,874
EBITDA (**)	3,657,500	2,256,415	250,983	151,524	1,597,232	234,695	5,505,715	2,642,634

(*) Does not include Brazilian operations,

(**) Income before financial expenses, income tax and social contribution on net income, and depreciation and amortization, as mentioned in Note 26.

The segments shown below correspond to the business units through which the Gerdau Executive Committee manages its operations: Long Steel Brazil, Açominas (corresponding to the operations of the plant located in Ouro Branco, state of Minas Gerais), South America (excluding Brazilian operations) and North America (Gerdau Ameristee):

Information by business segment:

	BUSINESS SECTOR									
	LONG BRAZIL		AÇOMINAS OURO BRANCO		SOUTH AMERICA (*)		NORT AMERICA		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net sales revenues	7,329,008	5,359,998	2,646,752	1,946,929	763,865	490,122	8,857,637	5,569,912	19,597,262	13,366,961
Identifiable assets (**)	4,447,413	3,183,362	3,482,517	3,241,331	668,351	580,385	6,131,526	4,273,441	14,729,807	11,278,519
Capital expenditure	648,070	329,999	265,851	355,984	27,367	22,253	1,156,660	164,803	2,097,948	873,039
Depreciation/amortization	235,767	235,878	265,707	120,392	28,251	25,367	237,094	223,408	766,819	605,045

(*) Does not include Brazilian operations,

(**) Identifiable assets: accounts receivable, inventories and fixed assets

BOARD OF DIRECTORS

CHAIRMAN

JORGE GERDAU JOHANNPETER

VICE CHAIRMAN

GERMANO H. GERDAU JOHANNPETER

KLAUS GERDAU JOHANNPETER

CARLOS JOÃO PETRY

BOARD MEMBERS

AFFONSO CELSO PASTORE

ANDRÉ PINHEIRO DE LARA RESENDE

OSCAR DE PAULA BERNARDES NETO

SECRETARY GENERAL

EXPEDITO LUZ

EXECUTIVE COMMITTEE

PRESIDENT

JORGE GERDAU JOHANNPETER

VICE PRESIDENTS

FREDERICO C. GERDAU JOHANNPETER, Senior Vice President

CARLOS JOÃO PETRY, Senior Vice President

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DOMINGOS SOMMA

FILIFE AFFONSO FERREIRA

RICARDO GEHRKE

SECRETARY GENERAL

EXPEDITO LUZ

CORPORATE OFFICERS

EXPEDITO LUZ

GERALDO TOFFANELLO

GERALDO TOFFANELLO
Accountant CRC RS No. 31.084
CPF No. 078.257.060-72

REPORT OF INDEPENDENT AUDITORS

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

1. We have audited the accompanying balance sheets of Metalúrgica Gerdau S.A. and the consolidated balance sheets of Metalúrgica Gerdau 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 Metalúrgica Gerdau 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 Metalúrgica Gerdau S.A. and of Metalúrgica Gerdau 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 Metalúrgica Gerdau 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" RS

Carlos Alberto de Sousa
Accountant CRC 1RJ 056561/O-0 "S" RS

OPINION OF THE FISCAL COUNCIL

The Fiscal Council of Metalúrgica Gerdau S.A., in performance of its legal and statutory duties, in compliance with article 163 of Law 6404/76, having examined the Company's Management Report, the individual (parent company) and consolidated balance sheets and the related statements of income, of changes in shareholders' equity and of changes in financial position for the years ended December 31, 2004 and 2003, as well as the distribution of interest on equity and dividends, and based on the report of PricewaterhouseCoopers Auditores Independentes, is of the opinion that these accounting statements fairly reflect the Company's individual and consolidated financial position, in conformity with current accounting practices, and are in perfect condition to be approved at the Ordinary General Meeting.

Porto Alegre, March 11, 2005

CARLOS ROBERTO SCHRÖDER
DOMINGOS MATIAS URROZ LOPES
MÁRIO MAGALHÃES DE SOUSA