GERDAU S.A.
Form 20-F
March 15, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Fiscal Year Ended December 31, 2016**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14878

GERDAU S.A.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Farrapos 1811
Porto Alegre, Rio Grande do Sul - Brazil CEP 90220-005
(Address of principal executive offices) (Zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange in which registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2016 was:

573,627,483 Common Shares, no par value per share
1,146,031,245 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

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INTRODUCTION

Unless otherwise indicated, all references herein to:

(i) the Company , Gerdau , we or us are references to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil) and its consolidated subsidiaries;

(ii) Açominas is a reference to Aço Minas Gerais S.A. Açominas prior to November 2003 whose business was to operate the Ouro Branco steel mill. In November 2003 the company underwent a corporate reorganization, receiving all of Gerdau s Brazilian operating assets and liabilities and being renamed Gerdau Açominas S.A.;

(iii) Gerdau Açominas is a reference to Gerdau Açominas S.A. after November 2003 and to Açominas before such date. In July 2005, certain assets and liabilities of Gerdau Açominas were spun-off to four other newly created entities: Gerdau Aços Longos, Gerdau Aços Especiais and Gerdau América do Sul Participações. As a result of such spin-off, as from July 2005, the activities of Gerdau Açominas only comprise the operation of the Açominas steel mill;

(iv) Preferred Shares and Common Shares refer to the Company s authorized and outstanding preferred stock and common stock, designated as *ações preferenciais* and *ações ordinárias*, respectively, all without par value. All references herein to the *real , reais* or *R$* are to the Brazilian *real*, the official currency of Brazil. All references to (i) U.S. dollars , dollars , U.S.$ or $ are to the official currency of the United States, (ii) Euro or the official currency of members of the European Union, (iii) billions are to thousands of millions, (iv) km are to kilometers, and (vi) tonnes are to metric tonnes;

(v) Installed capacity means the annual projected capacity for a particular facility (excluding the portion that is not attributable to our participation in a facility owned by a jointly controlled entity), calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance;

(vi) Tonne means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds;

(vii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, South America, North America and Europe/Asia, excluding our jointly controlled entity and associate companies;

(viii) Worldsteel means World Steel Association, IABr means Brazilian Steel Institute (Instituto Aço Brasil) and AISI means American Iron and Steel Institute;

(ix) CPI means consumer price index, CDI means Interbanking Deposit Rates (Certificados de Depósito Interfinanceiro), IGP-M means Consumer Prices Index (Índice Geral de Preços do Mercado), measured by FGV (Fundação Getulio Vargas), LIBOR means London Interbank Offered Rate, GDP means Gross Domestic Product;

(x) Brazil BD means Brazil Business Division, North America BD means North America Business Division, South America BD means South America Business Division and Special Steel BD means Special Steel Business Division.

(xi) proven or probable mineral reserves has the meaning defined by SEC in Industry Guide 7.

The Company has prepared the consolidated financial statements included herein in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The following investments are accounted following the equity method: Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investment in the holding company Gerdau Metaldom Corp., in which the Company holds a 45% stake, in the Dominican Republic, the investment in the holding company Corsa Controladora, S.A. de C.V., in which the Company holds a 49% stake, which in turn holds the capital stock of Aceros Corsa S.A. de C.V., in Mexico, the investment in Gerdau Corsa S.A.P.I. de C.V., in Mexico, in which the Company holds a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake.

Unless otherwise indicated, all information in this Annual Report is stated as of December 31, 2016. Subsequent developments are discussed in Item 8.B - Financial Information - Significant Changes.

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CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to our future prospects, developments and business strategies.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

It is possible that our future performance may differ materially from our current assessments due to a number of factors, including the following:

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;

- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;

- our ability to obtain financing on satisfactory terms;

- prices and availability of raw materials;

- changes in international trade;

- changes in laws and regulations;

- electric energy shortages and government responses to them;

- the performance of the Brazilian and the global steel industries and markets;

- global, national and regional competition in the steel market;

- protectionist measures imposed by steel-importing countries; and

- other factors identified or discussed under Risk Factors.

Our forward-looking statements are not guarantees of future performance, and actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable, as the Company is filing this Form 20-F as an annual report.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected financial information for the Company included in the following tables should be read in conjunction with the IFRS financial statements of the Company, appearing elsewhere in this Annual Report, and section Operating and Financial Review and Prospects . The consolidated financial data of the Company as of and for each of the years ended on December 31, 2016, 2015, 2014, 2013 and 2012 are derived from the financial statements prepared in accordance with IFRS and presented in Brazilian Reais.

IFRS Summary Financial and Operating Data

	(Expressed in thousands of Brazilian Reais- R$ except quantity of shares and amounts per share)				
	2016	**2015**	**2014**	**2013**	**2012**
NET SALES	37,651,667	43,581,241	42,546,339	39,863,037	37,981,668
Cost of sales	(34,187,941)	(39,290,526)	(37,406,328)	(34,728,460)	(33,234,102)
GROSS PROFIT	3,463,726	4,290,715	5,140,011	5,134,577	4,747,566
Selling expenses	(710,766)	(785,002)	(691,021)	(658,862)	(587,369)
General and administrative expenses	(1,528,262)	(1,797,483)	(2,036,926)	(1,953,014)	(1,884,306)
Impairment of assets	(2,917,911)	(4,996,240)	(339,374)		
Results in operations with subsidiaries, associate and jointly controlled entity	(58,223)		636,528		
Other operating income	242,077	213,431	238,435	318,256	244,414

Other operating expenses	(114,230)	(116,431)	(150,542)	(140,535)	(180,453)
Equity in earnings (losses) of unconsolidated companies	(12,771)	(24,502)	101,875	54,001	8,353
INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	(1,636,360)	(3,215,512)	2,898,986	2,754,423	2,348,205
Financial income	252,045	378,402	276,249	292,910	316,611
Financial expenses	(2,010,005)	(1,780,366)	(1,397,375)	(1,053,385)	(952,679)
Exchange variations, net	851,635	(1,564,017)	(476,367)	(544,156)	(134,128)
Gains and losses on financial instruments, net	(38,930)	87,085	36,491	(2,854)	(18,547)
INCOME (LOSS) BEFORE TAXES	(2,581,615)	(6,094,408)	1,337,984	1,452,646	1,559,462
Current	(110,511)	(158,450)	(571,926)	(318,422)	(316,271)
Deferred	(193,803)	1,656,872	722,315	559,478	253,049
Income and social contribution taxes	(304,314)	1,498,422	150,389	241,056	(63,222)
NET INCOME (LOSS)	(2,885,929)	(4,595,986)	1,488,373	1,693,702	1,496,240
ATRIBUTABLE TO:					
Owners of the parent	(2,890,811)	(4,551,438)	1,402,873	1,583,731	1,425,633
Non-controlling interests	4,882	(44,548)	85,500	109,971	70,607
	(2,885,929)	(4,595,986)	1,488,373	1,693,702	1,496,240

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	(Expressed in thousands of Brazilian Reais-R$ except quantity of shares and amounts per share)				
	2016	2015	2014	2013	2012
Basic earnings (loss) per share in R$					
Common	(1.70)	(2.69)	0.82	0.93	0.84
Preferred	(1.70)	(2.69)	0.82	0.93	0.84
Diluted earnings (loss) per share in R$					
Common	(1.70)	(2.69)	0.82	0.93	0.84
Preferred	(1.70)	(2.69)	0.82	0.93	0.84
Cash dividends declared per share in R$					
Common	0.05	0.15	0.25	0.28	0.24
Preferred	0.05	0.15	0.25	0.28	0.24
Weighted average Common Shares outstanding during the year (1)	571,929,945	571,929,945	571,929,945	571,929,945	571,929,945
Weighted average Preferred Shares outstanding during the year (1)	1,132,626,373	1,117,034,926	1,132,483,383	1,129,184,775	1,130,398,618
Number of Common Shares outstanding at year end (2)	571,929,945	571,929,945	571,929,945	571,929,945	571,929,945
Number of Preferred Shares outstanding at year end (2)	1,137,018,570	1,114,744,538	1,132,613,562	1,132,285,402	1,128,534,345

(1) The information on the numbers of shares presented above corresponds to the weighted average quantity during each year.

(2) The information on the numbers of shares presented above corresponds to the shares at the end of the year.

	On December 31,				
	2016	2015	2014	2013	2012
	(Expressed in thousands of Brazilian Reais - R$)				
Balance sheet selected information					
Cash and cash equivalents	5,063,383	5,648,080	3,049,971	2,099,224	1,437,235
Short-term investments (1)	1,024,411	1,270,760	2,798,834	2,123,168	1,059,605
Current assets	17,796,740	22,177,498	20,682,739	18,177,222	16,410,397
Current liabilities	8,621,509	7,863,031	7,772,796	7,236,630	7,823,182
Net working capital (2)	9,175,231	14,314,467	12,909,943	10,940,592	8,587,215
Property, plant and equipment, net	19,351,891	22,784,326	22,131,789	21,419,074	19,690,181
Net assets (3)	24,274,653	31,970,383	33,254,534	32,020,757	28,797,917
Total assets	54,635,141	70,094,709	63,042,330	58,215,040	53,093,158
Short-term debt (including Current Portion of Long-Term Debt)	4,458,220	2,387,237	2,037,869	1,810,783	2,324,374
Long-term debt, less current portion	15,959,590	23,826,758	17,148,580	14,481,497	11,725,868
Debentures - short term				27,584	257,979
Debentures - long term	165,423	246,862	335,036	386,911	360,334
Equity	24,274,653	31,970,383	33,254,534	32,020,757	28,797,917
Capital	19,249,181	19,249,181	19,249,181	19,249,181	19,249,181

(1) Includes held for trading.

(2) Total current assets less total current liabilities.

(3) Total assets less total current liabilities and less total non-current liabilities.

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Exchange rates between the United States Dollar and Brazilian *Reais*

The following table presents the exchange rates, according to the Brazilian Central Bank, for the periods indicated between the United States dollar and the Brazilian *real* which is the currency in which we prepare our financial statements included in this Annual Report on Form 20-F.

Exchange rates from U.S. dollars to Brazilian reais

Period	Period-end	Average	High	Low
March-2017 (through March 13)	3.1541	3.1350	3.1735	3.0976
February-2017	3.0993	3.1042	3.1479	3.0510
January-2017	3.1270	3.1966	3.2729	3.1270
December-2016	3.2591	3.3523	3.4650	3.2591
November-2016	3.3967	3.3420	3.4446	3.2024
October - 2016	3.1811	3.1858	3.2359	3.1193
September - 2016	3.2462	3.2564	3.3326	3.1934
2016	3.2591	3.4833	4.1558	3.1193
2015	3.9048	3.3399	4.1949	2.5754
2014	2.6562	2.3547	2.7403	2.1974
2013	2.3426	2.1601	2.4457	1.9528
2012	2.0435	1.9550	2.1121	1.7024

Dividends

The Company s total authorized capital stock is composed of common and preferred shares. As of December 31, 2016, the Company had 571,929,945 common shares and 1,137,018,570 non-voting preferred shares outstanding (excluding treasury stock).

The following table details dividends and interest on equity paid to holders of common and preferred stock since 2012. The figures are expressed in Brazilian reais and U.S. dollars. The exchange rate used for conversion to U.S. dollars was based on the date of the resolution approving the dividend.

Dividends per share information has been computed by dividing dividends and interest on equity by the number of shares outstanding, which excludes treasury stock. The table below presents the quarterly dividends paid per share, except where stated otherwise:

Period	Date of Resolution	R$ per Share Common or Preferred Stock	$ per Share Common or Preferred Stock

1st Quarter 2012	05/02/2012	0.0600	0.0313
2nd Quarter 2012	08/02/2012	0.0900	0.0440
3rd Quarter 2012	11/01/2012	0.0700	0.0345
4th Quarter 2012	02/21/2013	0.0200	0.0101
1st Quarter 2013	05/07/2013	0.0200	0.0099
2nd Quarter 2013 (1)	08/01/2013	0.0700	0.0305
3rd Quarter 2013 (1)	10/31/2013	0.1200	0.0545
4th Quarter 2013	02/21/2014	0.0700	0.0296
1st Quarter 2014 (1)	05/07/2014	0.0700	0.0312
2nd Quarter 2014	07/30/2014	0.0600	0.0265
3rd Quarter 2014 (1)	11/05/2014	0.0500	0.0199
4th Quarter 2014	03/04/2015	0.0700	0.0235
1st Quarter 2015 (1)	06/05/2015	0.0600	0.0197
2nd Quarter 2015 (1)	08/12/2015	0.0500	0.0144
3rd Quarter 2015	10/29/2015	0.0400	0.0102
2nd Quarter 2016	08/10/2016	0.0300	0.0096
3rd Quarter 2016	11/04/2016	0.0200	0.0062

(1) Payment of interest on equity.

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Brazilian Law 9,249 of December 1995 provides that a company may, at its sole discretion, pay interest on equity in addition to or instead of dividends (See Item 8 Financial Information - Interest on Equity). A Brazilian corporation is entitled to pay its shareholders interest on equity up to the limit based on the application of the TJLP rate (Long-Term Interest Rate) to its shareholders equity or 50% of the net income in the fiscal year, whichever is higher. This payment is considered part of the mandatory dividend required by Brazilian Corporation Law for each fiscal year. The payment of interest on equity described herein is subject to a 15% withholding tax. See Item 10. Additional Information Taxation .

Gerdau has a Dividend Reinvestment Plan (DRIP), a program that allows the holders of Gerdau ADRs to reinvest dividends to purchase additional ADRs in the Company, with no issuance of new shares. Gerdau also provides its shareholders with a similar program in Brazil that allows the reinvestment of dividends in additional shares, with no issuance of new shares.

B. CAPITALIZATION AND INDEBTEDNESS

Not required, as the Company is filing this Form 20-F as an annual report.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not required, as the Company is filing this Form 20-F as an annual report.

D. RISK FACTORS

Any downgrade in the Company s credit ratings could adversely affect the availability of new financing and increase its cost of capital.

In 2007, the international rating agencies, Fitch Ratings and Standard & Poor s, classified the Company s credit risk as investment grade , enabling the Company to access more attractive borrowing rates. In December 2011, Moody s assigned the investment grade rating Baa3 for all of Gerdau s ratings. With the deterioration of the Brazilian economy, S&P, Fitch and Moody s downgraded Brazil s sovereign rating. Despite the loss of Brazil s investment grade in 2015, the Company maintained its investment grade by the rating agencies Fitch and Standard & Poor s. However, on February 5, 2016, Moody s downgraded Gerdau s credit rating to Ba3 , with a negative outlook.

The loss of any additional of Gerdau s investment grade ratings could increase its cost of capital, impair its ability to obtain capital and adversely affect its financial condition and results of operations.

The Company s level of indebtedness could adversely affect its ability to raise additional capital to fund operations, limit the ability to react to changes in the economy or the industry and prevent it from meeting its obligations under its debt agreements.

The Company s degree of leverage, together with the change in rating by the credit rating agencies, could have important consequences, including the following:

- It may limit the ability to obtain additional financing for working capital, additions to fixed assets, product development, debt service requirements, acquisitions and general corporate or other purposes;

- It may limit the ability to declare dividends on its shares;

- A portion of the cash flows from operations must be dedicated to the payment of interest on existing indebtedness and is not available for other purposes, including operations, additions to fixed assets and future business opportunities;

- It may limit the ability to adjust to changing market conditions and place the Company at a competitive disadvantage compared to its competitors that have less debt;

- The Company may be vulnerable in a downturn in general economic conditions;

- The Company may be required to adjust the level of funds available for additions to fixed assets; and

- Furthermore, R$16.5 billion of the total indebtedness of the Company and its subsidiaries, as of December 31, 2016, was subject to cross-default provisions, which could result in the early maturity of obligations, at thresholds varying from

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US$30.7 million to US$100.0 million, depending on the agreement. Thus, there is a risk that an event of default in one single debt agreement can potentially trigger events of default in other debt agreements.

As a result, the Company s financial condition and results of operations may be adversely affected.

In September 2015, the Company concluded the process of eliminating the financial covenants in all contracts. Since October, 2015, only financial transactions with BNDES include indebtedness ratios of the Company, but with distinct characteristics in relation to those contained in the contracts with commercial banks. In the event of a failure to satisfy the annual tests, the Company would have a grace period and a subsequent renegotiation of the security for the financing, and an event of default would not occur.

Unfavorable outcomes in judicial, administrative and regulatory litigation may negatively affect our results of operations, cash flows and financial condition.

We are involved in numerous tax, civil and labor disputes involving significant monetary claims.

The principal litigations are described more fully in Legal Proceedings. Among the material matters for which no reserve has been established are the following:

- The Company and its subsidiaries, Gerdau Aços Longos S.A. and Gerdau Açominas S.A. are parties in legal proceedings related to Tax on Circulation of Goods and Services (Imposto sobre a circulação de Mercadorias e Serviços - ICMS) state VAT proceedings, which essentially relate to tax credit and rate differences, and amount in aggregate to R$ 1,832 million as of December 31, 2016.

- The Company and its subsidiaries, Gerdau Açominas S.A.; Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A., are parties to proceedings related to other taxes for which no reserve for contingency was established, as the probability of loss is less likely than not. The total amount involved is R$ 691 million as of December 31, 2016.

- Subsidiary Gerdau Aços Longos S.A. is party to an administrative proceeding relating to Withholding Income Tax, in the amount of R$117 million, assessed on the remittance abroad of interest charged on export financings under Export Prepayment or Export Advance Agreements. The Company submitted an administrative claim challenging the tax assessment on January 13, 2017, the judgment of which is currently pending before the Brazilian Federal Revenue Judgment Office (Delegacia de Julgamento da Receita Federal do Brasil).

• Subsidiaries Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are parties to an administrative and judicial proceedings relating to IRPJ Corporate Income Tax and CSLL Social Contribution Tax, in the current amount of R$ 1,410 million. Said proceedings relate to profits generated abroad, of which (i) R$ 1,248 million correspond to two proceedings involving Gerdau Internacional Empreendimentos Ltda., of which (i.a.) R$ 348 million relate to a voluntary appeal which was partially granted in the lower tribunal of the Brazilian Board of Tax Appeals (Conselho Administrativo de Recursos Fiscais CARF , administrative body of the Ministry of Finance of Brazil), and is subject to special appeals currently pending in CARF s superior tribunal, and (i.b) R$ 900 million relate to a proceeding that is no longer subject to appeal in CARF and was referred for judicial collection, which collection is being challenged in the competent judicial lower court; and (ii) R$ 162 million correspond to a proceeding involving Gerdau Aços Especiais S.A., whose voluntary appeal in CARF s lower tribunal was dismissed, and currently awaits the publication of judgment for the lodging of an appeal.

• Subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., are parties to administrative proceedings relating to the disallowance of the deductibility of goodwill generated in accordance with Article 7 and 8 of Law 9,532/97 as a result of a corporate restructuring carried out in 2004/2005 from the tax base of the Corporate Income tax - IRPJ and Social Contribution on Net Income - CSLL. The total updated amount of the proceedings is R$ 5,089 million, of which (i) R$ 3,913 million correspond to four proceedings involving subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., for which administrative discussions already ended and are currently in the administrative collection stage; and in connection with Gerdau Aços Longos S.A., the Company obtained injunctive relief to permit it to offer a judicial guarantee using a liability insurance policy in the amount of R$ 2,806 million; (ii) R$ 505 million correspond to two proceedings involving Gerdau Acos Longos S.A., whose voluntary appeal is currently pending in CARF s lower tribunal; (iii) R$ 115 million correspond to a proceeding involving the subsidiary Gerdau Aços Especiais S.A., whose voluntary appeal is currently pending in CARF s lower tribunal; and (iv) R$ 556 million correspond to one proceeding involving the subsidiary Gerdau Aços Longos S.A., the challenge to which was filed by the Company on January 13, 2017 and is currently pending judgment by the Brazilian Federal Revenue Judgment Office (Delegacia de Julgamento da Receita Federal do Brasil).

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Some of the decisions obtained at the CARF related to those proceedings along with other matters involving the Company included in the scope of the so-called Operation Zelotes (Operation) are being investigated by Brazilian federal authorities including the Judiciary Branch, with the purpose of verifying the occurrence or not of alleged illegal acts.

Considering the involvement of Gerdau s name in press reports concerning the Operation, the Board of Directors decided to engage an external legal counsel, which would report to a Special Committee of the Board, to conduct an investigation to determine, among other things: (i) whether, in light of existent practices, proper protocol was followed in the Company s relationship with governmental authorities, including CARF, and in the hiring of firms representing the Company in cases before CARF; (ii) whether these firms have remained within the scope of thecontracted work; (iii) whether the engagement terms for such firms included clauses intended to prevent activity that violates ethical codes or laws currently in force; (iv) whether the engagement terms for such firms included the establishment of sanctions for any violations (whether contractual breaches or otherwise); and (v) if there is any evidence of fraud, deceit, bad faith, or any expression of an intent to commit an illegal act from part of directors and/or officers of the Company in it s the relationship with governmental authorities, including CARF, in the negotiation, signing or carrying out of the aforementioned contracts (Internal Investigation).

The Internal Investigation is ongoing, and the Company as of the date of the approval of these Financial Statements believes it is not possible to predict either the duration or the outcome of the Operation or of the Internal Investigation. Additionally, the Company believes that currently there is not enough information to determine whether a provision for losses is required or to disclose any contingency.

The Company s legal tax advisors have confirmed that the procedures adopted by the Company with respect to the tax treatment of profits abroad and the deductibility of goodwill, which generated the above mentioned proceedings, were strictly legal, and, therefore, the likelihood of loss with respect to said proceedings is possible (but not likely).

Unexpected equipment failures may lead to production curtailments or shutdowns.

Unexpected interruptions in the production capabilities at Gerdau s principal sites and installations would increase production costs, reducing shipments and earnings for the affected period. These interruptions result from: (i) unpredictable/periodic equipment failures, which are essential to the development of the production processes of Gerdau, such as steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers; and/or (ii) unanticipated events such as fires, explosions or violent weather conditions. As a result, Gerdau has experienced and may in the future experience material plant shutdowns or periods of reduced production. Unexpected interruptions in production capabilities would adversely affect Gerdau s productivity and results of operations. Moreover, any interruption in production capability may require Gerdau to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. Gerdau s insurance may not cover the losses. In addition, long-term business disruption could harm the Company s reputation and result in a loss of customers, which could adversely affect the business, results of operations, cash flows and financial condition.

The Company has no proven or probable reserves, and the Company s decision to commence industrial production, in order to supply its steelmaking works as well as sell any surplus volume, is not based on a study demonstrating economical recovery of any mineral reserves and is therefore inherently risky. Any funds spent by the Company on exploration or development could be lost.

The Company has not established any proven or probable mineral reserves at any of its properties. All exploration activities are supported based on mineral resources classified as mineralized materials, as they are not compliant with the definitions established by the SEC of proven or probable reserves. The Company is conducting a comprehensive exploration study to establish, in accordance with SEC definitions, the amount of mineralized material that could be transformed to proven or probable reserves. Thus, part of the volume of mineralized materials informed discussed herein may never reach the development or production stage.

In order to demonstrate the existence of proven or probable reserves, it would be necessary for Company to perform additional exploration to demonstrate the existence of sufficient mineralized material with satisfactory continuity and obtain a positive feasibility study which demonstrates with reasonable certainty that the deposit can be economically and legally extracted and produced. The absence of proven or probable reserves makes it more likely that Company s properties may cease to be profitable and that the money spent on exploration and development may never be recovered, which could adversely affect the financial condition and results of operations of the Company.

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The Company s projects are subject to risks that may result in increased costs or delay or prevent their successful implementation.

The Company invested to further increase mining production capacity. See Item 4D. Property, Plant and Equipment . These projects are subject to a number of risks that may adversely affect the Company s growth prospects and profitability, including the following:

- the Company may encounter delays, availability problems or higher than expected costs in obtaining the necessary equipment, services and materials to build and operate a project;

- the Company s efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including availability of overburden and waste disposal areas as well as reliable power and water supplies;

- the Company may fail to obtain, lose, or experience delays or higher than expected costs in obtaining or renewing the required permits, authorizations, licenses, concessions and/or regulatory approvals to build or continue a project; and

- changes in market conditions, laws or regulations may make a project less profitable than expected or economically or otherwise unfeasible.

Any one or a combination of the factors described above may materially and adversely affect the Company s financial condition and results of operations.

Our mineral resource estimates are based in interpretations and premises and may materially differ from mineral quantities that we may be able to actually extract.

Our mining resources are estimated quantities of ore and minerals. There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. In addition, estimates of different engineers may vary. As a result, no assurance can be given that the amount of mining resources will be extracted or that they can be extracted at commercially viable rates, which could adversely affect the financial situation of the Company.

Moreover, when making determinations about whether to advance any projects to development, Gerdau relies upon estimated calculations as to the mineralized material on its properties. Since Gerdau has not conducted a feasibility study demonstrating proven or probable reserves,

estimates of mineralized material presented are less certain than would be the case if the estimates were made in accordance with the SEC-recognized definition of proven and probable reserves. Furthermore, until ore is actually mined and processed, any mineral reserves and grades of mineralization must be considered as estimates only. These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure that these mineralized material estimates will be accurate or that this mineralized material can be mined or processed profitably and any decision to move forward with development is inherently risky. Further, there can be no assurance that any minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or production scale. Any material changes in estimates of mineralized material will affect the economic viability of placing a property into production and such property s return on capital. As a result, the Company s financial condition and results of operations may be adversely affected.

Drilling and production risks could adversely affect the mining process.

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial time and expenditures are required to:

- establish mineral reserves through drilling;
- determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;
- obtain environmental and other licenses;
- construct mining, processing facilities and infrastructure required for greenfield properties; and
- obtain the ore or extract the minerals from the ore.

If a mining project proves not to be economically feasible by the time we are able to profit from it, the Company may incur substantial losses and be obliged to take write-offs. In addition, potential changes or complications involving metallurgical and other

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technological processes arising during the life of a project may result in delays and cost overruns that may render the project not economically feasible and could adversely affect the financial condition and results of operations of the Company.

The Company has two mining tailing dams and any accident or defect affecting the structural integrity of either of them could affect its image, results of operations, cash flows and financial condition.

Gerdau has two mining tailing dams in the state of Minas Gerais. The Bocaina Dam has been inactive since 2011 and is practically dry, which is a factor that minimizes the risk. It is periodically monitored and its instrumentation data are within the safety limits. Meanwhile, the Alemães Dam is currently operating at its maximum capacity and is regularly monitored. The instrumentation data are within the safety limits.

Both dams are classified as Class C (low risk) in accordance with the National Mining Dam Registry available on the website of the National Department of Mineral Production (DNPM).

Gerdau adopts rigorous standards of engineering control and environmental supervision and conducts an annual Geotechnical Stability Audit to ensure the stability of the two dams. Gerdau has a Mining Dam Emergency Action Plan for each of the dams and both documents are filed at the regulatory agencies, as required by governing law.

An accident involving a dam could result in serious adverse consequences, including:

- Temporary/permanent shutdown of mining activities and consequently the need to buy iron ore to supply mills;
- Large expenditures on contingencies and on recovering the regions and people affected;
- High investments to resume operations;
- Payment of fines and damages;
- Potential environmental impacts.

Any one or more of these consequences could have a material adverse impact on our results of operations, cash flow and financial condition.

The interests of the controlling shareholder may conflict with the interests of the non-controlling shareholders.

Subject to the provisions of the Company´s By-Laws, the controlling shareholder has powers to:

- elect a majority of the directors and nominate executive officers, establish the administrative policy and exercise full control of the Company´s management;

- sell or otherwise transfer the Company´s shares; and

- approve any action requiring the approval of shareholders representing a majority of the outstanding capital stock, including corporate reorganization, acquisition and sale of assets, and payment of any future dividends.

By having such power, the controlling shareholder can make decisions that may conflict with the interest of the Company and other shareholders, which could adversely affect the financial condition and the results of operations of the Company.

Non-controlling shareholders may have their stake diluted in an eventual capital increase.

The Company may, in the future, raise funds through a public or private issuance of shares and or debt securities convertible or not into shares. The raising of additional funds through the issuance of shares and or debt securities could result in the dilution of the interest of the non-controlling shareholder in the current composition of the Company s capital, since, pursuant to the Corporations Law, the raising of funds may be done with the exclusion of the preemptive right of the Company s shareholders and, if the investor does not participate in a potential priority offer to the current shareholders of the Company in the proportion of its interest in the Company s capital stock its current shareholding interest will be diluted.

Higher steel scrap prices or a reduction in supply could adversely affect production costs and operating margins.

The main metal input for the Company s mini-mills, which mills accounted for 78.0% of total crude steel output as of December 31, 2016, is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. local market, because the United States is the main scrap exporter, scrap prices in the Brazilian market are set by domestic supply and

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demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a corresponding increase in finished steel selling prices, the Company s profits and margins could be adversely affected. An increase in steel scrap prices or a shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues. As a result, the Company s financial condition and results of operations may be adversely affected.

Increases in iron ore and coal prices, or reductions in market supply, could adversely affect the Company s operations.

When the prices of raw materials, particularly iron ore and coking coal, increase, and the Company needs to produce steel in its integrated facilities, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its mills Ouro Branco, Barão de Cocais and Divinópolis in the state of Minas Gerais.

The Ouro Branco mill is the Company s largest mill in Brazil, and its main metal input for the production of steel is iron ore. This unit represented 49.5% of the total crude steel output (in volume) of the Brazil Business Division. A shortage of iron ore in the domestic market may adversely affect the steel producing capacity of the Brazilian units, and an increase in iron ore prices could reduce profit margins.

The Company has iron ore mines in the Brazilian state of Minas Gerais. To mitigate its exposure to the volatility in iron ore prices, the Company invested in expanding the production capacity of these mines, which, commencing in 2012, met 100% of iron ore demand from the Ouro Branco Mill.

All of the Company s coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input at the Ouro Branco mill and is used at the coking facility. Although this mill is not dependent on coke supplies, a contraction in the supply of coking coal could adversely affect the integrated operations at this site. The coking coal used in this mill is imported from Canada, the United States, Australia, Mozambique, Peru, Russia and Colombia. Although the market for the supply of coking coal is relatively balanced at the moment, and we have entered into long-term contracts with negotiable prices periodically to minimize the risks of shortages, a shortage of coking coal in the international market would adversely affect the steel producing capacity of the Ouro Branco mill. In addition, an increase in prices could reduce profit margins. Another related risk is the currency depreciation to which the Ouro Branco Mill is exposed, since all coking coal consumed by the operation is imported.

As a result, the Company s financial condition and results of operations may be adversely affected.

The Company s operations are energy-intensive, and energy shortages or higher energy prices could have an adverse effect.

Crude steel production is an energy-intensive process, especially in melt shops with electric arc furnaces. Electricity represents an important production component at these units, as also does natural gas, although to a lesser extent. Electricity cannot be replaced at Gerdau s mills and power rationing or shortages could adversely affect production at those units. As a result, the Company s financial condition and results of operations may be adversely affected.

The failure to pay by our clients or the non-receipt, by the Company, of the credits held before financial institutions and originated from financial investments could adversely affect the Company s revenues.

Gerdau may suffer losses from the default of our clients. Gerdau has a broad base of active clients and, in the case of default of a group of clients, Gerdau may suffer an adverse effect on its business, financial condition, results of operations and cash flows.

This risk arises from the possibility of the Company not receiving the amounts due to it from sales transactions or credits payable by financial institutions, which originated from our financial investments, which could also have an adverse effect on the business, financial condition, results of operations and cash flows of Gerdau.

Global crises and subsequent economic slowdowns may adversely affect global steel demand. As a result, the Company s financial condition and results of operations may be adversely affected.

Historically, the steel industry has been highly cyclical and deeply impacted by economic conditions in general, such as world production capacity and fluctuations in steel imports/exports and the respective import duties. After a steady period of growth between 2004 and 2008, the marked drop in demand resulting from the global economic crisis of 2008-2009 once again demonstrated the vulnerability of the steel market to volatility of international steel prices and raw materials. That crisis was caused by the dramatic increase of high risk real estate financing defaults and foreclosures in the United States, with serious consequences for bank and financial markets throughout the world. Developed markets, such as North America and Europe, experienced a strong recession due to

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the collapse of real estate financings and the shortage of global credit. As a result, the demand for steel products suffered a decline in 2009, but since 2010 has been experiencing a gradual recovery, principally in the developing economies. The steel sector is experiencing challenges mainly due to excess global steel capacity, the Chinese economic slowdown, and the entry of imported steel into countries with more open economies.

The economic downturn and turbulence in the global economy can negatively impact the consuming markets, affecting the business environment with respect to the following:

- Decrease in international steel prices;

- Slump in international steel trading volumes;

- Crisis in automotive industry and infrastructure sectors; and

- Lack of liquidity in the international market.

If Company is not able to remain competitive in these shifting markets, our profitability, margins and income may be negatively affected. A decline in this trend could result in a decrease in Company shipments and revenues. As a result, the Company s financial condition and results of operations may be adversely affected.

Brazil s political and economic conditions and the Brazilian government s economic and other policies may negatively affect demand for the Company s products as well as its net sales and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the country s economy. The Brazilian government s actions to control inflation and implement other policies have involved hikes in interest rates, wage and price controls, devaluation of the currency, freezing of bank accounts, capital controls and restrictions on imports.

The Company s results of operations and financial condition may be adversely affected by the following factors and the government responses to them:

- exchange rate controls and fluctuations;

- interest rates;

- inflation;

- tax policies;

- energy shortages;

- liquidity of domestic and foreign capital and lending markets; and

- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets and securities issued abroad by Brazilian issuers. In 2015, Brazil was downgraded below investment grade by Moody s, Standard & Poor s and Fitch Ratings. These and other developments in Brazil s economy and government policies may adversely affect the Company and its business.

In addition, and as a consequence of the above, Brazil has been experiencing an economic slowdown. The GDP growth rates were -3.6% in 2016, -3.8% in 2015 and 0.1% in 2014.

Political instability may adversely affect our business and results of operations and the price of our shares.

Brazil s political environment has historically influenced, and continues to influence, the performance of the country s economy. Political crises have affected and continue to affect investor confidence and of the general public, which resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

Currently, Brazilian markets are experiencing heightened volatility due to the uncertainties derived from the ongoing Lava Jato investigation, being conducted by the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. Members of the Brazilian federal government and of the legislative branch, as well as senior officers of large state-owned companies have faced allegations of political corruption, since they have allegedly accepted bribes by means of kickbacks

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on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties of the current federal government coalition that were unaccounted for or not publicly disclosed, as well as served to personal enrichment of the recipients of the bribery scheme.

The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether such allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their effect on the Brazilian economy.

The development of such cases could adversely affect our business, financial condition and results of operations.

Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company s business.

If Brazil experiences high levels of inflation once again, the country s rate of economic growth could slow, which would lead to lower demand for the Company s products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, which could lead the cost of servicing the Company s debt denominated in Brazilian *reais* to increase. Inflation may also hinder its access to capital markets, which could adversely affect its ability to refinance debt. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation that could adversely affect our business. As a result, the Company s financial condition and results of operations may be adversely affected.

Variations in the foreign exchange rates between the U.S. dollar and the currencies of countries in which the Company operates may increase the cost of servicing its debt denominated in foreign currency and adversely affect its overall financial performance.

The Company s results of operations are affected by fluctuations in the foreign exchange rates between the Brazilian *real*, the currency in which the Company prepares its financial statements, and the currencies of the countries in which it operates.

For example, the North America Business Division reports its results in U.S. dollars. Therefore, fluctuations in the exchange rate between the U.S. dollar and the Brazilian *real* could affect its results of operations. The same occurs with all other businesses located outside Brazil with respect to the exchange rate between the local currency of the respective subsidiary and the Brazilian *real*.

Export revenue and margins are also affected by fluctuations in the exchange rate of the U.S. dollar and other local currencies of the countries where the Company produces in relation to the Brazilian *real*. The Company s production costs are denominated in local currency but its export sales are generally denominated in U.S. dollars. Revenues generated by exports denominated in U.S. dollars are reduced when they are translated into Brazilian *real* in periods during which the Brazilian currency appreciates in relation to the U.S. dollar.

The Brazilian *real* depreciated against the U.S. dollar by 13.4% in 2014 and 47.0% in 2015 and appreciated by 16.5% in 2016.

The Company held debt denominated in foreign currency, mainly U.S. dollars, in an aggregate amount of R$ 16.5 billion at December 31, 2016, representing 80.1% of its consolidated gross debt (loans, financings, and debentures). Significant further depreciation in the Brazilian real in relation to the U.S. dollar or other currencies could reduce the Company s ability to service its obligations denominated in foreign currencies, particularly since a significant part of its net sales revenue is denominated in Brazilian reais. As a result, the Company s financial condition and results of operations may be adversely affected.

Demand for steel is cyclical and a reduction in prevailing world prices for steel could adversely affect Company s results of operations.

The steel industry is highly cyclical. Consequently, Company is exposed to substantial swings in the demand for steel products, which in turn causes volatility in the prices of most of its products and eventually could cause write-downs of its inventories. In addition, the demand for steel products, and hence the financial condition and results of operations of companies in the steel industry, including the Company itself, are generally affected by macroeconomic changes in the world economy and in the domestic economies of steel-producing countries, including general trends in the steel, construction and automotive industries. Since 2003, demand for steel products from developing countries (particularly China), the strong euro compared to U.S. dollar and world economic growth have contributed to a historically high level of prices for Company s steel products. However, since the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies experienced a significant slowdown, in turn affecting many other countries. Slow growth in steel consumption was not accompanied by a corresponding slowdown in capacity expansion over the last few years, resulting in an even greater excess of global steel capacity. Since then, the price has experienced a

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high volatility. A material decrease in demand for steel or exports by countries not able to consume their production could have a significant adverse effect on the Company s financial condition and results of operations.

Gerdau faces significant competition in relation to their steel products, including with regard to prices of other domestic and foreign producers, which may adversely affect its profitability and market share.

The global steel industry is highly competitive with respect to price, quality of products and customer service, as well as in relation to technological advances that allow the reduction of production costs. Brazilian exports of steel products is influenced by several factors, including protectionist policies of other countries, foreign exchange policy of the Brazilian government and growth rate of the world economy. Moreover, continuous advances in material sciences and the resulting technologies facilitate the improvement of products such as plastic, aluminum, ceramics and glass, allowing them to replace steel.

Due to the high initial investment costs, the operation of a steel plant on a continuous basis may encourage mill operators to maintain high production levels, even in periods of low demand, which would increase the pressure on industry profit margins. A competitive pressure that forces the fall in steel prices can also affect the profitability of Gerdau.

The steel industry has historically suffered from excess production capacity, which has recently worsened due to a substantial increase in production capacity in emerging countries, particularly China and India and other emerging markets. China is currently the largest global steel producer. In addition, China and certain steel exporting countries have favorable conditions (excess steel capacity, devalued currency or high market prices for steel products in markets outside these countries) which may significantly impact the price of steel in other markets. If Gerdau is unable to remain competitive with China and other steel-producing countries, its financial condition and results of operations may be adversely affected in the future.

An increase in China s steelmaking capacity or a slowdown in China s steel consumption could have a material adverse effect on domestic and global steel pricing and could result in increased steel imports into the markets in which Company operates.

One significant factor in the global steel market has been China s high steel production capacity, which has been exceeding its domestic consumption needs. This has made China a net exporter of steel products, increasing its importance in different countries of the transoceanic market and consequently pushing down international steel prices. Moreover, China s lower growth rate has resulted in a slower pace of steel consumption in the country, consequently reducing demand for imported raw materials, which too puts pressure on global commodity prices. Any intensification of these factors could adversely affect Company s exports, results of operations and financial condition.

Restrictive measures on trade in steel products may affect Company s business by increasing the price of its products or reducing its ability to export.

Gerdau is a steel producer that supplies both the domestic market in Brazil and a number of international markets. Company s exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, ad valorem taxes, tariffs or

increases in import duties, any of which could increase the costs of products and make them less competitive or prevent Gerdau from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties, which could adversely affect the Company s financial condition and results of operations.

Costs related to compliance with environmental regulations could increase if requirements become stricter, which could have a negative effect on the Company s results of operations.

The Company s industrial units and other activities must comply with a series of federal, state and municipal laws and regulations regarding the environment and the operation of plants in the countries in which they operate. These regulations include procedures relating to control of air emissions, disposal of liquid effluents and the handling, processing, storage, disposal and reuse of solid waste, hazardous or not, as well as other controls necessary for a steel company.

Non-compliance with environmental laws and regulations could result in administrative or criminal sanctions and closure orders, in addition to the obligation of repairing damage caused to third parties and the environment, such as clean-up of contamination. If current and future laws become stricter, spending on fixed assets and costs to comply with legislation could increase and negatively affect the Company s financial situation. Moreover, future acquisitions could subject the Company to additional spending and costs in order to comply with environmental legislation. As a result, the Company s financial condition and results of operations may be adversely affected.

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Laws and regulations to reduce greenhouse gases and other atmospheric emissions could be enacted in the near future, with significant, adverse effects on the results of the Company s operations, cash flows and financial situation.

One of the possible effects of the expansion of greenhouse gas reduction requirements is an increase in costs, mainly resulting from the demand for renewable energy and the implementation of new technologies in the productive chain. On the other hand, demand is expected to grow constantly for recyclable materials such as steel, which, being a product that could be recycled numerous times without losing its properties, results in lower emissions during the lifecycle of the product.

The Company expects operations overseas to be affected by future federal, state and municipal laws related to climate change, seeking to deal with the question of greenhouse gas (GHG) and other atmospheric emissions. Thus, one of the possible effects of this increase in legal requirements could be an increase in energy costs. As a result, the Company s financial condition and results of operations may be adversely affected.

Layoffs in the Company s labor force could generate costs or negatively affect the Company s operations.

A substantial number of our employees are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic negotiation. Strikes or work stoppages have occurred in the past and could reoccur in connection with negotiations of new labor agreements or during other periods for other reasons, including the risk of layoffs during a down cycle that could generate severance costs. Moreover, Company could be adversely affected by labor disruptions involving unrelated parties that may provide goods or services to the Company. Strikes and other labor disruptions at any of the Company operations could adversely affect the operation of facilities and the timing of completion and the cost of capital of our projects.

Our operations expose us to risks and challenges associated with conducting business in compliance with applicable anti-bribery anti-corruption and antitrust laws and regulations.

We have operations in Brazil and other countries in South America, North America, Europe, and Asia. We face several risks and challenges inherent in conducting business internationally, where we are subject to a wide range of laws and regulations such as the Brazilian Anti-Corruption Law (Law 12.846/2013), Antitrust Law (Law 12.529/2011), the U.S. Foreign Corrupt Practices Act, or FCPA, and similar anti-bribery, anti-corruption and antitrust laws in other jurisdictions. In recent years there has been an increased focus on corruption in Brazil and also the investigation and enforcement activities of the United States under the FCPA and by other governments under similar laws and regulations. These laws generally prohibit corrupt payments to governmental officials and certain payments, gifts or remunerations to or from clients and suppliers.

Violations of these laws and regulations could result in fines, criminal penalties and/or other sanctions against us, our officers or our employees, requirements to impose more stringent compliance programs, and prohibitions on the conduct of our business and our ability to participate in public biddings for contracts. We may incur expenses and recognize provisions and other charges in respect of such matters. In addition, the increased attention focused upon liability issues as a result of investigations, lawsuits and regulatory proceedings could harm our brand or otherwise impact the growth of our business. The retention and renewal of many of our contracts depends on creating a sense of trust with our customers and any violation of these laws and regulations may irreparably erode that trust and may lead to termination of such relationships and

have a material adverse effect on our financial condition and results of operations. If any of these risks materialize, our reputation, strategy, international expansion efforts and our ability to attract and retain employees could be negatively impacted, and, consequently our business, financial condition and results of operations could be adversely affected.

In March 2015, it was reported in the press that the Brazilian Federal Police had started an operation called Zelotes (Operation), to investigate whether a number of corporate taxpayers attempted to influence the decisions of the Administrative Board of Tax Appeals (CARF) through illegal means. On April 6, 2015, the Company received an inquiry from the CVM requesting clarifications regarding news reports linking the Company to the Operation. The Company clarified that, up to that moment, it had not been contacted by any public authority concerning the Operation.

Considering the involvement of Gerdau s name in press reports concerning the Operation, the Board of Directors decided to engage an external legal, which would report to a Special Committee of the Board, to conduct an investigation.

On February 25, 2016, the Federal Police came to Gerdau s premises to execute court ordered searches and seizures, taking documents and data for examination. The Federal Police also interviewed certain individuals associated with Gerdau, including its Chief Executive Officer and another current Board member. On that same date, filing a press release with SEC and CVM, the Company informed Bovespa and the New York Stock Exchange (NYSE).The internal investigation is ongoing, and the Company is cooperating with the Federal Police. See Notes 17 to the Consolidated Financial Statements (Tax, Civil and Labor Claims and Contingent Assets) for further information.

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Although the Company does not presently believe that these matters will have a material adverse effect on its business, given the inherent uncertainties in such situations, the Company can provide no assurance that these matters will not be material to its business in the future.

Developments and the perception of risks in other countries, especially in the United States and emerging market countries, may adversely affect the market prices of our shares.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in the United States and emerging market countries, especially other Latin American countries. The reaction of investors to economic developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant reductions of the investments from investment funds and declines in the amount of foreign currency invested in Brazil.

The Brazilian economy is also affected by international economic and market conditions, especially economic and market conditions in the United States. Share prices on the BM&FBOVESPA, for example, have historically been sensitive to fluctuations in United States interest rates as well as movements of the major United States stocks indexes.

Economic developments in other countries and securities markets could adversely affect the market prices of our shares, which could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms, and could also have a material adverse effect on our financial condition and results of operations.

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Gerdau S.A. is a Brazilian corporation (*Sociedade Anônima*) that was incorporated on November 20, 1961 under the laws of Brazil. Its main registered office is located at Av. Farrapos, 1811, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number is +55 (51) 3323 2000.

History

The current Company is the product of a number of corporate acquisitions, mergers and other transactions dating back to 1901. The Company began operating in 1901 as the Pontas de Paris nail factory controlled by the Gerdau family based in Porto Alegre, who is still the Company s indirect controlling shareholder. In 1969, Pontas de Paris was renamed Metalúrgica Gerdau S.A., which today is the holding company controlled by the Gerdau family and the parent company of Gerdau S.A.

From 1901 to 1969, the Pontas de Paris nail factory grew and expanded its business into a variety of steel-related products and services. At the end of World War II, the Company acquired Siderúrgica Riograndense S.A., a steel producer also located in Porto Alegre, in an effort to broaden its activities and provide it with greater access to raw materials. In February 1948, the Company initiated its steel operations, which foreshadowed the successful mini-mill model of producing steel in electric arc furnaces using steel scrap as the main raw material. At that time the Company adopted a regional sales strategy to ensure more competitive operating costs. In 1957, the Company installed a second unit in the state of Rio Grande do Sul in the city of Sapucaia do Sul, and in 1962, steady growth in the production of nails led to the construction of a larger and more advanced factory in Passo Fundo, also in Rio Grande do Sul.

In 1967, the Company expanded into the Brazilian state of São Paulo, purchasing Fábrica de Arames São Judas Tadeu, a producer of nails and wires, which was later renamed Comercial Gerdau and ultimately became the Company s Brazilian distribution channel for steel products. In June 1969, the Company expanded into the Northeast of Brazil, producing long steel at Siderúrgica Açonorte in the state of Pernambuco. In December 1971, the Company acquired control of Siderúrgica Guaíra, a long steel producer in the state of Paraná in Brazil s South Region. The Company also established a new company, Seiva S.A. Florestas e Indústrias, to produce lumber on a sustainable basis for the furniture, pulp and steel industries. In 1979, the Company acquired control of the Cosigua mill in Rio de Janeiro, which currently operates the largest mini-mill in Latin America. Since then, the Company has expanded throughout Brazil with a series of acquisitions and new operations, and today owns 10 steel units in Brazil.

In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., the only long steel producer in Uruguay. In 1989, the Company acquired the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a non-controlling interest in a rolling mill in Argentina, a controlling interest in Diaco S.A. in Colombia, and, most notably, additional interests in North

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America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on steel production volume. Gerdau Ameristeel has 17 steel units and fabrication shops and downstream operations.

In December 2003, Gerdau Açominas S.A., signed a purchase agreement with the Votorantim Group. Under this contract, Gerdau Açominas S.A. has agreed to purchase the real estate and mining rights of Companhia Paraibuna de Metais, a company controlled by Votorantim Group, whose mines were located at Miguel Burnier, Várzea do Lopes and Gongo Soco in the state of Minas Gerais. The assets involved in this transaction include 15 extraction concessions, located in a total area of 7,000 hectares. The original mining and steelworks facilities included in the aforementioned acquisition were decommissioned at that time. The price agreed upon for the purchase of the real estate and mineral rights described above was US$ 30 million (R$88.1 million on the date of the acquisition), with US$ 7.5 million paid at the signing of the agreement, 25% upon completion of the due diligence process and the remaining 50% in June of 2004. In 2012, Gerdau guaranteed its iron ore self-sufficiency for the integrated mill (Ouro Branco).

In September 2005, Gerdau acquired 36% of the stock issued by Sipar Aceros S.A., a long steel rolling mill, located in the Province of Santa Fé, Argentina. This interest, added to the 38% already owned by Gerdau represents 74% of the capital stock of Sipar Aceros S.A. In the same month, Gerdau concluded the acquisition of a 57% interest in Diaco S.A., the largest rebar manufacturer in Colombia. In January 2008, Gerdau acquired an additional interest of 40% for US$107.2 million (R$188.7 million on the acquisition date), increasing its interest to 99% of the capital stock, a figure that also takes into consideration the dilution of non-controlling interests, which explains the higher Gerdau share compared with the share in the two major acquisitions made.

In January 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, Gerdau acquired 40% of the capital stock of Corporación Sidenor S.A. for US$ 219.2 million (R$ 493.2 million on the acquisition date). In December 2008, Gerdau Hungria Holding Limited Liability Company acquired for US$ 288.0 million (R$ 674.0 million on the acquisition date) a 20% interest in Corporación Sidenor S.A. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor. In January 2013, as a result of the settlement of a put option held by the Santander Group, the Company acquired the remaining 40% of Corporación Sidenor S.A., for R$ 599.2 million and owned 100% of the capital stock. In May 2016, the Company closed the sale of Gerdau Holdings Europa S.A. in Spain (the subsidiary which held Corporación Sidenor S.A.). The transaction value was 155 million (equivalent to R$ 621 million on the completion of the sale), with the possibility of receiving up to an additional 45 million (equivalent to R$ 180 million) within five years, depending on future business performance.

In June 2006, Gerdau won the bid for 50% plus one share of the capital stock of Empresa Siderúrgica Del Perú S.A.A. (Siderperú) located in the city of Chimbote in Peru for US$ 60.6 million (R$ 134.9 million on the acquisition date). In November 2006, Gerdau also won the bid for 324,327,847 shares issued by Siderperú, which represented 33% of the total capital stock, for US$ 40.5 million, totaling US$ 101.1 million (R$ 219.8 million on the acquisition date). This acquisition added to the interest already acquired earlier in the year, for an interest of 83% of the capital stock of Siderperú.

In March 2007, Gerdau acquired Siderúrgica Tultitlán, a mini mill located in the Mexico City that produces rebar and profiles. The price paid for the acquisition was US$ 259.0 million (R$ 536.0 million on the acquisition date).

In May 2007, Gerdau acquired an interest of 30% in Multisteel Business Holdings Corp., a holding of Indústrias Nacionales, C. por A. (INCA), a company located in Santo Domingo, Dominican Republic, that produces rolled products. This partnership allowed Gerdau to access the Caribbean market. The total cost of the acquisition was US$ 42.9 million (R$ 82.0 million on the acquisition date). In July 2007, Gerdau acquired an additional interest of 19% in Multisteel Business Holdings Corp., bringing its total interest in the Company to 49%. The total cost of this second acquisition was US$ 72.0 million (R$ 135.2 million on the acquisition date). In October, 2014, Gerdau and Complejo Metalúrgico Dominicano S.A. confirmed the merger of operations of its companies Industrias Nacionales and METALDOM, becoming denominated Gerdau Metaldom. This merger is aimed at more efficiency and competitiveness in the Caribbean and Central America region and assures the supply of steel products for construction sector in the Dominican Republic.

In June 2007, Gerdau acquired 100% of the capital stock of Siderúrgica Zuliana C.A., a Venezuelan company operating a steel mill in the city of Ojeda, Venezuela. The total cost of the acquisition was US$ 92.5 million (R$ 176.2 million on the acquisition date).

In the same month, Gerdau and the Kalyani Group from India initiated an agreement to establish a jointly controlled entity for an investment in Tadipatri, India. The jointly controlled entity included an interest of 45% in Kalyani Gerdau Steel Ltd. The agreement provides for shared control of the jointly controlled entity, and the purchase price was US$ 73.0 million (R$ 127.3 million on the acquisition date). In May 2008, Gerdau announced the conclusion of this acquisition. On July 7, 2012, the Company obtained

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control of Kalyani Gerdau Steel Ltds (KGS), which the Company had an interest of 91.28% as of the control acquisition date. In 2012, until the date Gerdau acquired control over KGS, Gerdau made capital increases in KGS, which resulted in an increase of shareholding interest, going from 80.57% in December 31, 2011 to 91.28%.

In September 2007, Gerdau concluded the acquisition of Chaparral Steel Company, increasing Gerdau s portfolio of products and including a comprehensive line of structural steel products. The total cost of the acquisition was US$ 4.2 billion (R$ 7.8 billion on the acquisition date), plus the assumption of certain liabilities.

In October 2007, Gerdau executed a letter of intent for the acquisition of an interest of 49% in the capital stock of the holding company Corsa Controladora, S.A. de C.V., headquartered in Mexico City, Mexico. The holding company owns 100% of the capital stock of Aceros Corsa, S.A. de C.V. and its distributors. Aceros Corsa, located in the city of Tlalnepantla in the Mexico City metropolitan area, is a mini-mill responsible for the production of long steel (light commercial profiles). The acquisition price was US$ 110.7 million (R$ 186.3 million on the acquisition date). In February 2008, the Company announced the conclusion of this acquisition.

In November 2007, Gerdau entered into a binding agreement for the acquisition of the steel company MacSteel from Quanex Corporation. MacSteel is the second largest producer of Special Bar Quality (SBQ) in the United States and operates three mini-mills located in Jackson, Michigan; Monroe, Michigan; and Fort Smith, Arkansas. The Company also operates six downstream operations in the states of Michigan, Ohio, Indiana and Wisconsin. The agreement did not include the Building Products business of Quanex, which is an operation not related to the steel market. The purchase price for this acquisition was US$1.5 billion (R$2.4 billion on the acquisition date) in addition to the assumption of their debts and some liabilities. Gerdau concluded the acquisition in April 2008.

In February 2008, Gerdau invested in the verticalization of its businesses and acquired an interest of 51% in Cleary Holdings Corp. for US$ 73.0 million (R$ 119.3 million on the acquisition date). The Company controlled a metallurgical coke producer and coking coal reserves in Colombia. In August 2010, Gerdau S.A. concluded the acquisition of an additional 49% of the total capital of Cleary Holdings Corp. for US$ 57 million. In December 2016, the Company sold Cleary Holdings Corp. for US$ 30.2 million (equivalent to R$ 102.6 million on the sale date).

In April 2008, Gerdau entered into a strategic partnership with Corporación Centroamericana del Acero S.A., assuming a 30.0% interest in the capital of this company. The Company owns assets in Guatemala and Honduras as well as distribution centers in El Salvador, Nicaragua and Belize. The price of the acquisition was US$ 180 million (R$ 303.7 million on the acquisition date). In November 2016, the Company sold its stake in Corporación Centroamericana del Acero S.A. for US$ 70 million (equivalent to R$ 222.7 million on the sale date).

In June, 2008, the parent company Metalúrgica Gerdau S.A. acquired a 29% stake of voting and total capital in Aços Villares S.A. from BNDESPAR for R$ 1.3 billion. As a payment, Metalúrgica Gerdau S.A. issued debentures to be exchanged for Gerdau S.A. s common shares. In December, 2009 the Company s stake in Aços Villares S.A. owned through its subsidiary Corporación Sidenor S.A. was transferred to direct control of Gerdau S.A., for US$ 218 million (R$ 384 million on the acquisition date), which then owned a total 59% stake in Aços Villares S.A. In December 30, 2010, Gerdau S.A. and Aços Villares S.A. shareholders approved the merger into Gerdau S.A. of Aços Villares S.A. The transaction was carried out through a share exchange, whereby the shareholders of Aços Villares S.A. received one share in Gerdau S.A. for each lot of twenty-four shares held. The new shares were credited on February 10, 2011. As a result of the transaction, Aços Villares S.A. was delisted from the Brazilian stock exchange. Following the issuance of new shares under the merger, on February 28, 2011, the capital stock of Gerdau S.A. was represented by 505,600,573 common shares and 1,011,201,145 preferred shares.

On August 30, 2010, Gerdau S.A. concluded the acquisition of all outstanding common shares issued by Gerdau Ameristeel that it did not yet hold either directly or indirectly, for US$ 11.00 per share in cash, corresponding to a total of US$ 1.6 billion (R$ 2.8 billion). With the acquisition, Gerdau Ameristeel was delisted from the New York and Toronto stock exchanges.

On October 8, 2014, the Company concluded the sale of its 50% interest in its jointly controlled entity Gallatin Steel Company (Gallatin) to Nucor Corporation for R$ 937.8 million. The gain on the sale of this interest of R$ 636,528, before taxes was recognized in the income statement during the fourth quarter of 2014.

On July 14, 2015 the Company approved the acquisition of the minority interests described below, in the following companies: Gerdau Aços Longos S.A. (4.77%), Gerdau Açominas S.A. (3.50%), Gerdau Aços Especiais S.A. (2.39%) and Gerdau América Latina Participações S.A. (4.90%), with its counterparts Itaú Unibanco S.A. and ArcelorMittal Netherlands BV. The acquisitions of these interests, in a total amount of R$1,986 million, allowed Gerdau to hold more than 99% of the total capital of each of the subsidiaries. On August 10, 2015, the CVM requested clarification from Gerdau and the Company, referring to the statements of a shareholder concerning the transaction for the acquisition of minority stakes in subsidiaries by Gerdau. The shareholder alleged a

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potential conflict of interest in the transaction. In response, the Company has identified to the CVM that the referenced acquisition had exclusively commercial merits, was properly and unanimously approved by the Board of Directors of Gerdau and that the terms and conditions for the acquisition took into account a long term market perspective.

B. BUSINESS OVERVIEW

Steel Industry

The world steel industry is composed of hundreds of steel producing facilities and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as mini-mills . Integrated steel mills normally produce steel from iron oxide, which is extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Non-integrated steel mills produce steel by melting in electric arc furnaces scrap steel, which occasionally is complemented by other metals such as direct-reduced iron or hot-compressed iron. According to World Steel, in 2015 (last information available), 25.1% of the total crude steel production in the world was through mini-mill process and the remaining 74.9% was through the integrated process.

Crude Steel Production by Process in 2015*

Blast Furnace	Crude Steel Production (in million tonnes)	Production by Process (%) Mini-mill	Country
World	**1,617**	**25.1%**	**74.9**
China	804	6.1%	93.9
Japan	105	22.9%	77.1
India	89	57.3%	42.7
U.S.A.	79	62.7%	37.3
Russia	71	29.0%	71.0
S. Korea	70	30.4%	69.6
Germany	43	29.6%	70.4
Brazil	33	19.9%	80.1
Ukraine	23	5.6%	94.4

Source: Worldsteel/World Steel In Figures

*Last information available

Over the past 15 years, according to worldsteel, total annual crude steel production has grown from 904 million tonnes in 2002 to 1,628.5 million tonnes in 2016, for an average annual increase of 4.3%.

The main factor responsible for the increase in the demand for steel products has been China. Since 1993, China has become the world s largest steel market and currently consumes as much as the United States and Europe combined.

Over the past year, total annual crude steel production increased by 0.8% from 1,615.4 million tonnes in 2015 to 1,628.5 million tonnes in 2016, with a 7.0% increase in Middle East and 1.6% in Asia.

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Crude Steel Production (in million tonnes)

Source: worldsteel/monthly statistics

China is rebalancing its economy to move more towards a consumer-driven economy. GDP growth was aligned with the government expectation and despite the injection of credit into the construction and infrastructure sectors, the country showed a reduction in steel consumption for the third year in a row. In 2016, China s crude steel production was 808.4 million tonnes, an increase of 1.2% compared to 2015. In 2016, China s share of world steel production was 49.6% of world total crude steel.

Crude Steel Production by Country in 2016 (million tonnes)

Source: worldsteel/monthly statistics

Asia produced 1,106.3 million tonnes of crude steel in 2016, an increase of 1.4% compared to 2015, and its share of world steel production amounted to 69.0%. Japan produced 104.8 million tonnes in 2016, a decrease of 0.3% compared to 2015. India s crude steel production was 95.6 million tonnes in 2016, an increase of 7.4% compared to 2015. South Korea s production was 68.6 million tonnes in 2016, a decrease of 1.6% compared to 2015.

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The EU-28 produced 162.3 million tonnes of crude steel in 2016, a decrease of 2.3% compared to 2015. The United Kingdom showed a decrease of 30.9% compared to 2015, producing 7.6 million tonnes in 2016, while Germany production fell slightly when compared to the year 2015, produced 42.1 million tonnes in 2016.

In 2016, crude steel production in North America was stable at 111.0 million tonnes compared to 2015. The United States produced 78.6 million tonnes of crude steel, a decrease of 0.3% compared to 2015.

The CIS showed a crude steel production increase of 0.8% in 2016. Russia produced 70.8 million tonnes of crude steel, same level of 2015, while Ukraine recorded an increase of 5.5%, with year-end production figures of 24.2 million tonnes.

The Brazilian Steel Industry

In 2016, Brazil was the world s 9th largest producer of crude steel, with a production of 30.2 million tonnes, a 1.9% share of the world market and 51.5% of the total steel production in Latin America during the year.

Total sales of Brazilian steel products were 30.2 million tonnes in 2016, 33.3 million tonnes in 2015 and 33.9 million tonnes in 2014, exceeding domestic demand of 18.2 million tonnes in 2016, 21.3 million tonnes in 2015 and 25.6 million in 2014. In 2016, total steel sales in the domestic market decreased 9.1% from 2015, going from 18.2 million tonnes to 16.5 million tonnes.

In 2016, the total of Brazilian steel products sales was 29.0 million tonnes. The breakdown of total sales was 66.2% or 19.2 million tonnes of flat steel products, formed by domestic sales of 9.6 million tonnes and exports of 9.6 million tonnes. The remaining 33.8% or 9.8 million tonnes represented sales of long steel products, which consisted of domestic sales of 6.9 million tonnes and exports of 2.8 million tonnes.

Breakdown of Total Sales of Brazilian Steel Products (million tonnes)

Source: Instituto Aço Brasil

Domestic demand - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although domestic consumption varies in accordance with Gross Domestic Product (GDP), variations in steel consumption tend to be more accentuated than changes in the level of economic growth. In 2016, the Brazilian GDP decreased by 3.6% and steel consumption declined by 14.4%.

Exports and imports Over the past 20 years, the Brazilian steel industry has been characterized by a structural need for exports. The Brazilian steel market has undergone periods of excess capacity, cyclical demand and intense competition in recent years. Demand for finished steel products has lagged total supply (total production plus imports).

In 2016, Brazilian steel exports totaled 13.4 million tonnes, representing 44.8% of total sales (domestic sales plus exports). Brazil has performed an important role in the world export market, principally as an exporter of semi-finished products (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of semi-finished products totaled 8.4 million tonnes in 2016, 8.7 million tonnes in 2015 and 6.3 million tonnes in 2014, representing 62.9%, 63.5% and 64.4% of Brazil s total exports of steel products, respectively.

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Brazilian Production and Apparent Demand for Steel Products (million tonnes)

Source: Instituto Aço Brasil

Brazil used to be a small importer of steel products. Considering the reduction in the international steel prices during 2010, the appreciation of the Brazilian *real* against the U.S. dollar and the decrease in demand for steel products in developed countries, the Brazilian levels of imports increased from 2.3 million tonnes in 2009 to 5.9 million tonnes in 2010 (excluding the imports made by the steel mills to avoid double counting), representing 22.0% of apparent domestic consumption. In 2014, imports were 4.0 million tonnes, decreased to 3.2 million tonnes in 2015 and 1.9 million tonnes in 2016. In 2016, imports represented 9.3% of apparent domestic consumption, a reduction compared to 2015, which was mainly due to lower prices in the domestic market compared to the international market.

Raw materials - One of Brazil s major competitive advantages is the low cost of its raw materials. Brazil has an abundance of high quality iron ore. Various integrated producers are located in the state of Minas Gerais, where some of the world s biggest iron ore mines are located. The cost of iron ore from small miners in Brazil is very competitive if compared to the cost of iron ore in China, for example.

In Brazil, most of the scrap metal consumed by steel mills comes from Brazil s Southeast and South regions. Mill suppliers deliver scrap metal obtained from obsolete products and industrial scrap directly to the steel mills.

Brazil is a major producer of pig iron. Most of the pig iron used in the steel industry comes from the state of Minas Gerais and the Carajás region, where it is produced by various small and midsized producers. The price of pig iron follows domestic and international markets, with charcoal and iron ore the main components of its cost formation.

North American Steel Industry

The global steel industry is highly cyclical and competitive due to the large number of steel producers, the dependence upon cyclical end markets and the high volatility of raw material and energy prices. The North American steel industry is currently facing a variety of challenges, including volatile pricing, high fixed costs and low priced imports. The future success of North American steel producers is dependent upon numerous factors, including general economic conditions, levels and prices of steel imports and the strength of the U.S. dollar.

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Crude Steel Production by North American Countries (million tonnes)

Source: worldsteel/monthly statistics

Beginning in mid-2000 and continuing through 2002, the North American steel industry experienced a severe downward cycle due to excess global production capacity, high import levels at low prices, including prices that were below the combined costs of production and shipping, and weak general economic conditions. These forces resulted in lower domestic steel prices and significant domestic capacity closures. Prices for many steel products reached 10-year lows in late 2001. As a result of these conditions, over 20 U.S. steel companies sought protection under Chapter 11 of the United States Bankruptcy Code since the beginning of 2000.

In response to these conditions, in March 2002, Former President Bush imposed a series of tariffs and quotas on certain imported steel products under Section 201 of the Trade Act of 1974. These measures were intended to give the domestic steel industry an opportunity to strengthen its competitive position through restructuring and consolidation. On November 10, 2003, the World Trade Organization (WTO) Appellate Body issued a ruling that upheld an initial WTO panel ruling that declared the Section 201 tariffs on steel imports to be in violation of WTO rules concerning safeguard measures. On December 4, 2003, Former President Bush signed a proclamation terminating the steel safeguard tariffs, and announced that the tariffs had achieved their purpose and changed economic circumstances indicated it was time to terminate them. International trade negotiations, such as the ongoing Organization for Economic Cooperation and Development steel subsidy agreement negotiations and the WTO Doha Round negotiations, may affect future international trade rules with respect to trade in steel products.

The North American steel industry has experienced a significant amount of consolidation in the last decade. Bankrupt steel companies, once overburdened with underfunded pension, healthcare and other legacy costs, were relieved of obligations and purchased by other steel producers. This consolidation, including the purchases of the assets of LTV Corporation, Bethlehem Steel Corporation, Trico Steel Co. LLC and National Steel Corporation, has created a lower operating cost structure for the resulting entities and a less fragmented industry. In the bar sector in 2002, the combination of Gerdau North America and Co-Steel in October 2002 and Nucor Corporation s acquisition of Birmingham Steel Corporation in February 2002 significantly consolidated the market. Gerdau s acquisition of the North Star Steel assets from Cargill in November 2004,

Sheffield Steel Corporation in 2006 and Chaparral Steel Company in September 2007, have further contributed to this consolidation trend. Since the beginning of 2007, Tata Iron and Steel Co. Ltd. acquired Corus Group PLC, SSAB Svenskt Staal AB acquired Ipsco Inc., Essar Global Ltd. acquired Algoma Steel Inc., United States Steel Corporation acquired Stelco Inc., and Arcelormittal Inc. acquired Bayou Steel Corporation.

The steel industry demonstrated strong performance through the middle of 2006, resulting from the increased global demand for steel related products and a continuing consolidation trend among steel producers. Beginning in the fall of 2008, the steel industry began feeling the negative effects of the severe economic downturn brought on by the credit crisis. The economic downturn continued through 2009 and has resulted in a significant reduction in the production and shipment of steel products in North America, as well as reduced exports of steel products from the United States to other parts of the world. Since the beginning of 2010, the economy in North America has been showing signs of upturn, contributing to a gradual recovery in the steel industry, with an important improvement in the non-residential and automotive sector. The Company believes that this trend should continue throughout 2017.

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Company Profile

Gerdau S.A. is mainly dedicated to the production and commercialization of steel products in general, through its mills located in Argentina, Brazil, Canada, Chile, Colombia, the United States, India, Mexico, Peru, the Dominican Republic, Uruguay and Venezuela.

Gerdau is the leading manufacturer of long steel in the North and South America. Gerdau believes it is one of the major global suppliers of special steel for the automotive industry. In Brazil, Gerdau also produces flat steel and iron ore, activities that are expanding Gerdau s product mix and the competitiveness of its operations. In addition, Gerdau believes it is one of Latin America s biggest recycler and, worldwide, transforms millions of tonnes of scrap metal into steel every year, reinforcing its commitment to sustainable development in the regions where it operates. Gerdau s shares are listed on the New York, São Paulo and Madrid stock exchanges.

According to information from the Brazilian Steel Institute (Instituto Aço Brasil), Gerdau is Brazil s largest producer of long steel. Gerdau holds significant market share in the steel industries of almost all countries where it operates and was classified by Worldsteel Association as the world s 17th largest steel producer based on its consolidated crude steel production in 2015, the year for which the last information is available.

Gerdau operates steel mills that produce steel by direct iron-ore reduction (DRI) in blast furnaces and in electric arc furnaces (EAF). In Brazil it operates three integrated steel mills, including its largest mill, Ouro Branco, located in the state of Minas Gerais. Gerdau currently has a total of 42 steel producing facilities globally, including jointly controlled entities and associate companies.

As of December 31, 2016, Gerdau s total consolidated installed annual capacity, excluding investments in jointly controlled entities and associate companies, was approximately 25.5 million tonnes of crude steel and 22.0 million tonnes of rolled steel products. The Company had total consolidated assets of R$ 54.6 billion, shareholders equity (including non-controlling interests) of R$ 24.3 billion, consolidated net sales of R$ 37.7 billion and a total consolidated net loss (including non-controlling interests) of R$ 2.9 billion for the period ended on December 31, 2016. After excluding the impairment of assets and results in operations with subsidiaries, associate and jointly controlled entity, which are extraordinary events, the net income for the period ended on December 31, 2016 would be R$ 90.2 million.

Gerdau offers a wide array of steel products, which can be manufactured according to the customer s specifications. The product mix includes crude steel (slabs, blooms and billets) sold to rolling mills, finished products for the construction industry such as rebars, wire rods, structural, hot rolled coils and heavy plates; finished products for consumer goods industry such as commercial bars, light shapes and mesh wire and products for farming and agriculture such as poles, smooth wire and barbed wire. Gerdau also produces special steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

A significant portion of Gerdau s steel production assets are located outside Brazil, particularly in the United States and Canada, as well as in Latin America and Asia. Gerdau began its expansion into North America in 1989, when consolidation in the global steel market effectively began. Gerdau currently operates 17 steel production units in the United States, Canada and Mexico, and believes that it is one of the market leaders in North America in terms of production of certain long steel products, such as rebars, wire rods, commercial bars and beams.

Gerdau s operating strategy is based on the acquisition and/or construction of steel mills located close to its customers and sources of the raw materials required for steel production, such as scrap metal, pig iron and iron ore. For this reason, most of its production has historically been geared toward supplying the local markets in which it has production operations. However, Gerdau also exports a substantial portion of its production to other countries.

Through its subsidiaries and affiliates, Gerdau also engages in other activities related to the production and sale of steel products, including: reforestation; electric power generation projects; iron ore and pig iron production; as well as fab shops and downstream operations.

Operations

The Company sells its products to a diversified list of customers for use in the construction, manufacturing and agricultural industries. Shipments by the Company s Brazilian operations include both domestic and export sales. Most of the shipments by the Company s business divisions in North and Latin America (except Brazil) are aimed at their respective local markets.

The Company manages its Business Divisions as follows:

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- **Brazil BD** (Brazil Business Division) - includes operations in Brazil (excluding Special Steel) and iron ore operation in Brazil;

- **North America BD** (North America Business Division) - includes all operations in North America (Canada, United States and Mexico), except special steels, in addition to associate and jointly-controlled entities, both of which are located in Mexico;

- **South America BD** (South America Business Division) - includes all operations in South America (Argentina, Chile, Colombia, Peru, Uruguay and Venezuela), except the operations in Brazil, in addition to the jointly-controlled entity in the Dominican Republic; and

- **Special Steel BD** (Special Steel Business Division) - includes the special steel operations in Brazil, the United States and India.

The following tables present the Company s consolidated shipments in tonnage and net sales by Business Division for the periods indicated:

Shipments

Gerdau S.A. Consolidated Shipments by Business Operations (1) (1,000 tonnes)	**Year ended December 31, 2016**	**2015**	**2014**
TOTAL	**15,558**	**16,970**	**17,869**
Brazil	6,067	6,457	6,583
North America	5,965	6,232	6,500
South America	2,088	2,222	2,278
Special Steel	2,102	2,621	2,894
Eliminations and Adjustments	(665)	(562)	(386)

(1) The information does not include data from associate and jointly-controlled entities.

Net Sales

Gerdau S.A. Consolidated Net Sales by Business Divisions (1) (R$ million)	Year ended December 31, 2016	2015	2014
TOTAL	**37,652**	**43,581**	**42,546**
Brazil	11,635	12,977	14,813
North America	15,431	17,312	14,640
South America	4,776	5,477	5,078
Special Steel	6,885	8,882	8,644
Eliminations and Adjustments	(1,075)	(1,067)	(629)

(1) The information does not include data from associate and jointly-controlled entities.

Brazil Business Division

Steel information

The Brazil Operation minimizes delays by delivering its products directly to customers through outsourced companies under Gerdau s supervision. Sales trends in both the domestic and export markets are forecast monthly. Brazil Operation uses a proprietary information system to stay up-to-date on market developments so that it can respond swiftly to fluctuations in demand. Gerdau considers its flexibility in shifting between markets (Brazilian and export markets) and its ability to monitor and optimize inventory levels for most of its products in accordance with changing demand as key factors to its success.

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In the Brazil Operation, sales volume in 2016 presented a reduction (-6.0%) compared to 2015, mainly influenced by the 13.5% reduction in the domestic market demand due to a lower level of activity in the construction and industry sectors, which was partially offset by export volumes growth of 8.6% due to opportunities in the international market.

In 2016, around 15% of the production sold in Brazil was distributed through Gerdau s distribution channel, with stores throughout Brazil and downstream facilities, serving a significant number of customers. Another important distribution channel is the independent s network, formed by points of sales to which Gerdau sells its products, giving it comprehensive national coverage. Sales through its distribution network and to final industrial and construction consumers are made by Gerdau employees and authorized sales representatives working on commission. This Business Division has annual crude steel installed capacity of 9.2 million tonnes and 7.1 million tonnes of finished steel products.

Iron Ore information

Gerdau s mineral assets were incorporated to its business through the acquisition of lands and mining rights of Grupo Votorantim, in 2004, encompassing the Miguel Burnier, Várzea do Lopes, and Gongo Soco compounds, located in the iron producing region in the state of Minas Gerais, Brazil. From 2004 to 2010, several geological surveys (drilling and superficial geological mapping) were conducted in order to obtain further information on the acquired resources.

Gerdau is considered to be in the exploration stage. The Company is devoting substantially all of its present efforts to exploring and identifying iron mineralized material suitable for development. The properties have no reserves. Based on prior exploration, the Company believes there to be significant mineralization and intends to undertake an exploration program to prove the reserves.

The drilling campaign that the Company has already executed and intends to execute as follows:

- 2004 a 2011: 46.8 thousand meters of drilling;
- 2012 a 2015: 43.0 thousand meters of drilling;
- 2016: no drilling occurred because the Company did not obtain a specific environmental license (the Company is currently in the process of obtaining one).

Current exploration activities as well as the future mining operations planned are conducted and expect to continue to be conducted under the open pit mining modality. The purpose of the planned drilling and mineral survey program, which is now in progress, is to transform mineral resources into reserves, based on global standards and definitions, to an appropriate extent in order to support the business plan established for the future. Additionally, due to current information on the mentioned areas, and their locations within the iron producing region in the state of

Minas Gerais, Brazil, whose specific geology and similar examples of large-scale operations are extremely well-known and correlatable, this particular goal is estimated to be feasible.

North America Business Division

The North America Operation has annual production capacity of 10.9 million tonnes of crude steel and 9.0 million tonnes of finished steel products. It has a vertically integrated network of 17 steel units for the operation of a mini-mill (including jointly controlled entities and associate companies), scrap recycling facilities (including jointly controlled entities and associate companies), downstream operations (including three jointly controlled entities) and fabshops. North America Operation s products are generally sold to steel service centers and steel fabricators or directly to original equipment manufacturers for use in a variety of industries, including construction, automotive, mining, cellular and electrical transmission, metal construction fabrication and equipment fabrication. Most of the raw material feed stock for the mini-mill operations is recycled steel scrap.

The mills of this business division manufacture and commercialize a wide range of steel products, including steel reinforcement bars (rebar), merchant bars, structural shapes, beams, special sections and coiled wire rod. Some of these products are used by the downstream units to make products with a higher value-add, which consists of the fabrication of rebar, railroad spikes, cold drawn products, super light beam processing, elevator guide rails, grinding balls, wire mesh and wire drawing.

The downstream strategy is to have production facilities located in close proximity to customers job sites so that quick delivery is provided to meet their reinforcing steel needs and construction schedules.

In general, sales of finished products to U.S. and Canadian customers are centrally managed by the Tampa sales office. There is also a sales office in Selkirk, Manitoba for managing sales of special sections and one in Texas for managing sales of

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structural products. Metallurgical service representatives at the mills provide technical support to the sales group. Sales of the cold drawn and super light beam products are managed by sales representatives located at their respective facilities. Fabricated rebar and elevator guide rails are generally sold through a bidding process in which employees at Gerdau s facilities work closely with customers to tailor product requirements, shipping schedules and prices.

At the North America Operation, shipments in 2016 decreased 4.3% compared to 2015, due to the increasing share of imported products in the region, even with the maintenance of good demand in the non-residential construction sector.

The North America Operation accounted for 38.3% of overall Gerdau sales volumes. Gerdau s Canadian operations sell a significant portion of their production in the United States.

South America Business Division

The South America Business Division comprises 6 steel facilities, retail facilities, fab shops (including jointly controlled entities and associate companies) and scrap processing facilities. The entire operation is focused on the respective domestic markets of each country, operating mini-mills facilities with annual manufacturing capacity of 2.4 million tonnes of crude steel and 2.4 million tonnes of finished steel products. The South American operation accounted for 13.4% of overall Gerdau sales volumes, representing 2.1 million tonnes in 2016, a reduction of 6.0% when compared to 2015. The main representative countries in the South America Business Division are Chile, Colombia and Peru. Gerdau also operates in the markets of Uruguay, Argentina, Dominican Republic and Venezuela.

Chile - Has installed capacity of 520,000 tonnes of crude steel and 530,000 tonnes of rolled steel. This unit produces rebars, merchant bars and wire rods, which are commercialized, primarily, in the domestic market. Gerdau in Chile sells its products to more than 150 clients, including distributors and end-users.

Colombia - The Company believes to have a market share of 23% of the Colombian common long steel market. The Company believes it to be the largest producer of steel and rebar in Colombia, selling its products through own distributors, third-party distributors and clients (end-users) in civil construction, industry and others. Colombian units have annual installed capacity of 674,000 tonnes of crude steel and 545,000 tonnes of rolled products.

Peru Is one of the main steel companies in Peru, with more than 60 years of experience in this business. The company sells its products to approximately 600 clients in the construction, manufacturing and mining sectors and has more than 180 distributors. Gerdau in Peru has annual installed capacity of 720,000 tonnes of crude steel and 573,000 tonnes of rolled products.

Special Steel Business Division

The Special Steel Business Division is composed of the operations in Brazil (Charqueadas, Pindamonhangaba and Mogi das Cruzes), in the United States (Fort Smith, Jackson and Monroe) and in India (Tadipatri). This operation produces engineering steel (SBQ), tool steel, rolling mill rolls, large forged and casted engineering pieces. In order to meet the continuous need for innovation, this operation is constantly developing new products, such as high strength steels, clean steel, high temperability steels and steel with improved machining characteristics, among others.

The Special Steel Business Division recorded a reduction of 19.8% in shipments in 2016 compared to the prior year, due to the divestment of the units in Spain and, to a lesser extent, the drop in volumes in Brazil.

In Brazil, Gerdau special steel operations are located in Rio Grande do Sul (Charqueadas) and in São Paulo (Pindamonhangaba e Mogi das Cruzes). The special steel units in Brazil have a combined annual capacity of 1.4 million tonnes of crude steel and 1.9 million tonnes of rolled products. The operation in Brazil has more than 300 customers located mainly in Brazil, although its products are also exported to South America, North America and Europe.

In North America, Gerdau maintains a presence in United States, with three mills located in Jackson (Michigan), Monroe (Michigan) and Fort Smith (Arkansas). The operation also has six downstream operations. The operation has an annual installed capacity of 1.5 million tonnes of crude steel and 1.5 million tonnes of rolled products and has more than 200 customers located mainly in the United States, Canada and Mexico.

In India, the Company has a plant for the production of special steel with capacity of 250 thousand tonnes of crude steel and 300 thousand tonnes of rolled products. The operation is constantly evolving and is achieving better results each year.

There are commercial and operational synergies among the units in this business division.

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Exports

In 2016, prices in the international markets exhibited a high level of volatility. The main factors in these price movements were speculation in the Chinese market (mainly on cuts to production capacity and the futures market for raw materials and steel), the high prices for raw materials (mainly metallurgical coal and scrap) and the absence of Chinese exporters in the market during certain periods of the year.

Despite high volatility during the 2016, as shown by a comparison of prices at the end of 2015 in relation to those at the end of 2016, a change in level was observed in all segments. Despite weak demand in the international market for finished goods in late 2016, Turkish exporters of long products (rebar and profiles) registered an average price increase of 30% for the end of 2016 as compared to 2015. Meanwhile, China, which enjoys solid domestic demand and is more affected by raw material prices, registered an average price increase of 68% for long products (rebar and wire rods).

Chinese exporters of flat products (hot-rolled coils and heavy plates) increased their average prices by 77% between the end of 2015 and end of 2016.

This scenario of higher prices for raw materials, long and flat products also helped to support the prices of semi-finished products. Billet prices also benefitted from the absence of Chinese offers during certain periods of the year, due to the directing of shipments to the domestic market. Russian and Ukrainian billets registered a price increase of 61%, while prices for billets from China increased 78%. The prices of slabs from Russia and Ukraine increased 91%, supported by the high prices for flat goods and the low supply of material in the market.

In 2016, Gerdau s Brazilian exports were primarily to South America, which accounted for 31% of exports, to supply the Group s companies. Exports to Central America increased in relation to 2015, mainly due to the higher supply of billets and structural profiles. North America remained the main destination of flat good exports.

The following table presents the Company s consolidated exports by destination for the periods indicated:

Gerdau S.A. Consolidated Exports by Destination	**Year ended December 31, 2016**	**2015**	**2014**
Total including shipments to subsidiaries (1,000 tonnes)	**2,360**	**2,173**	**1,043**
Africa	3%	14%	
Central America	27%	11%	4%
North America	22%	22%	46%
South America	31%	26%	37%
Asia	5%	6%	6%
Europe	12%	15%	6%
Middle East	1%	7%	

In 2016, Gerdau began a new phase of its history with the first exports of heavy plate.

Gerdau continues to build a diversified customer base around the world, which will be fundamental to expanding its portfolio of exported products and meeting the challenges of 2017.

Products

The Company supplies its customers with a wide range of products, including steel products and iron ore:

Semi-finished products (Billets, Blooms and Slabs)

The semi-finished products (billets, blooms and slabs) have relatively low added value compared to other steel products. Billets are bars from square sections of long steel that serve as inputs for the production of wire rod, rebars and merchant bars. They represent an important part of the products from the Ouro Branco mill. Blooms are used to manufacture products such as springs, forged parts, heavy structural shapes and seamless tubes. Slabs are used in the steel industry for the rolling of a broad range of flat rolled products, and mainly used to produce hot and cold rolled coils, heavy slabs, profiles and heavy plates.

The semi-finished products are produced using continuous casting and, in the case of blooms and billets there is subsequent rolling process.

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Common Long Rolled Products

Common long rolled products represent a major portion of the Company s production. The Company s main long rolled products include rebars, wire rods, merchant bars, light shapes and profiles, which are used mainly by the construction and manufacturing industries.

Drawn Products

Drawn products include barbed and barbless fence wire, galvanized wire, fences, concrete reinforcing wire mesh, nails and clamps. These products are not exported and are usually sold to the manufacturing, construction and agricultural industries.

Special Steel Products

Special steel requires advanced manufacturing processes because they have specific physical and metallurgical characteristics for applications with high mechanical demands. This steel is a key product for the automotive industry, as it is used in auto parts, light and heavy vehicles and agricultural machinery. Special steels also serve other relevant markets, such as oil and gas, wind energy, machinery and equipment, mining and rail, among others.

Flat Products

The Ouro Branco mill produces hot rolled coils and heavy plate, which are sold in the domestic and export markets. The Company distributes these products through its distribution channel and direct sales, and also resells flat steel products manufactured by other Brazilian steel producers to which it adds further value through additional processing at its flat steel service centers. The new heavy plate rolling mill, with an annual capacity of 1.1 million tonnes, started to operate in July 2016.

Iron Ore

Gerdau operates three mines producing iron ore, all located in the Brazilian state of Minas Gereais (Várzea do Lopes, Miguel Burnier and Gongo Soco). The mines produce the following: sinter feed (featuring low content of contaminants and good metallurgical properties, enabling its use as a base material); pellet feed/concentrated (superior quality enabling its use as a chemical balancer in the synthetizing process, while being also adequate for pelletizing, blast furnace quality - low loss by calcination PPC); hematite fines (small scale production, used as input in Gerdau s furnaces); and Granulated (high quality, used chiefly for own consumption at the Ouro Branco Mill).

The following table presents the main products and the contributions to net revenue and net income by Business Division for the periods shown:

	Brazil(1)			North America			South America			Special Steel			Eliminations and Adjustments		
Products	Rebars, merchant bars, beams, drawn products, billets, blooms, slabs, wire rod, structural shapes, hot rolled coil, heavy plate and iron ore			Rebars, merchant bars, wire rod, light and heavy structural shapes.			Rebar, merchant bars and drawn Products.			Stainless steel, special profiles and wire rod.					
Year	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net Sales (R$ million)	11,634.9	12,977.3	14,813.3	15,430.8	17,312.2	14,640.1	4,775.6	5,477.2	5,078.4	6,884.7	8,882.1	8,643.9	(1,074.3)	(1,067.6)	(629.4
% of Consolidated Net Sales	30.9%	29.8%	34.8%	41.0%	39.7%	34.4%	12.7%	12.6%	11.9%	18.3%	20.4%	20.3%	-2.9%	-2.4%	-1.5
Net (Loss) Income (R$ million)	(36.7)	(671.7)	1,013.8	(2,591.9)	(1,468.1)	613.7	134.2	(154.2)	(84.7)	162.5	(2,297.3)	123.1	(554.1)	(4.7)	(176.8
% of Consolidated Net (Loss) Income	1.3%	14.6%	68.1%	89.8%	31.9%	41.2%	-4.7%	3.4%	-5.7%	-5.6%	50.0%	8.3%	19.2%	0.1%	-11.9

(1) Include iron ore sales.

Production Process

In Brazil, the Company has a decentralized production process, using both mini-mills and integrated facilities. In general, the Company has used the mini-mill model to produce steel products outside of Brazil.

Non-Integrated Process (Mini-Mills)

The Company operates 40 mini-mills worldwide. Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce steel product at the required specifications requested by customers. After loading the furnace with a preset mixture of raw material (i.e., steel scrap, pig iron and sponge iron), electric power is applied in accordance with a computer controlled melting profile. The Company s mini-mill production process generally consists of the following steps: obtaining raw material,

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melting, casting, rolling and drawing. The basic difference between this process and the integrated mill production process described below is in the first processing phase, i.e., the steelmaking process. Mini-mills are smaller plants than integrated facilities and the Company believes they provide certain advantages over integrated mills, including:

- lower capital costs,
- lower operational risks due to the low concentration of capital and installed capacity in a single production plant,
- proximity of production facilities to raw-material sources,
- proximity to local markets and easier adjustment of production levels, and
- more effective managerial structure due to the relative simplicity of the production process.

Integrated Process

The Company operates five integrated mills, of which three are located in Brazil, one in Peru and one in India. The Ouro Branco mill is the largest integrated facility the Company operates. Although it produces steel using a blast furnace, this mill has some of the advantages of a mini-mill since it is located very close to its main suppliers and the ports from which the Company exports most of its production.

The Company s steelmaking process in integrated facilities consists of four basic processes: raw material preparation, pig-iron production, steel production and production of semi-finished products (billets, blooms and slabs). In the primary stage of steel making, sinter (a mixture of iron ore and fluxes), coke and other raw materials are consumed in the blast furnace to produce pig iron. Coke acts as both a fuel and a reducing agent in this process. The Company s blast furnaces have installed capacity of 5.9 million tonnes of liquid pig iron per year.

The pig iron produced by the blast furnace is transported by rail to the desulphurization unit to reduce the sulfur content in the steel. After the desulphurization process, the low-sulfur pig-iron is transformed into steel through LD-type oxygen converters. The LD steelmaking process utilizes molten pig iron and scrap to produce steel by blowing oxygen over the metallic charge inside the converters. The process does not require any external source of energy, which is fully supplied by the chemical reactions that occur between the oxygen and the molten pig iron impurities. The LD steelmaking process is presently the most widely used in the world. Some mills further refine the LD converters output with ladle furnaces and degassing process.

The liquid steel is then sent to the continuous casting equipment, which are solidified in the form of billets, blooms or slabs. These products can be sold directly to customers, be transferred for processing into other Gerdau units or be transformed into rolled finished products in the Company´s own integrated units. Gerdau integrated units in Brazil have rebar, bars and rods, wire rods, structural steel, hot rolled coils and heavy plate rolling mills.

Logistics

Gerdau sells its products through independent distributors, direct sales from the mills and its retail network.

Logistics costs are an important component of most steel businesses and represent a significant factor in maintaining competitive prices in the domestic and export markets. The Gerdau mills are strategically located in various different geographic regions. The Company believes that the proximity of its mills to raw material sources and important consumer markets gives it a competitive advantage in serving customers and obtaining raw materials at competitive costs. This represents an important competitive advantage in inbound and outbound logistics.

To adequate and reduce logistic costs, Gerdau uses specific solutions, directed to different types of transportation modes (road, rail, sea and cabotage), terminals, technology and equipment. Gerdau continuously seeks to improve its performance to receive raw materials, and to deliver products to its customers or ports of destination. Accordingly, Gerdau develops and maintain long-term relationships with logistic suppliers specialized in delivering raw materials and steel products.

In 1996 Gerdau acquired an interest in MRS Logística, one of the most important rail companies in Brazil, which operates connecting the states of São Paulo, Rio de Janeiro and Minas Gerais, which are Brazil s main economic centers, and also reaches the main ports of the country in this region. These shares provide the guarantee of using this mode to transport raw materials (scrap and pig iron) as well as final products.

Gerdau uses around 12 ports to deliver products from the entire Brazilian coastline. The majority of exports are shipped from Praia Mole Private Steel Terminal in Vitoria, Espírito Santo. Furthermore, this is Brazil s most efficient and productive seaport for handling steel products, with more than 20 years of expertise in this business.

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Overseas, Gerdau owns a private port terminal in Chimbote (Peru), where the Company has a steel mill, used to deliver inputs, raw material and products for the operation.

Competition

The steel market is divided into manufacturers of long steel products, flat steel products and special steel.

The Company operates in the long steel market, which is the most important market for Gerdau, by supplying to the following customer segments: (i) construction, to which it supplies rebars, merchant bars, nails and meshes; (ii) manufacturing, to which it supplies products for machinery, agricultural equipment, tools and other industrial products; and (iii) other markets, to which it supplies wires and posts for agricultural installations and reforestation projects. In North America, the Company also supplies customers with special sections, including elevator guide rails and super light beams. The Company also provides its customers with higher value-added products at rebar and wire rod fabrication facilities.

The Company operates in the flat steel market through its Ouro Branco mill that produces slabs, which are used to roll flat products such as hot and cold rolled steel coils and heavy plates. Gerdau also produces hot-rolled coils, which are sold in the domestic and export markets. The Company distributes these hot-rolled coils and also resells flat steel products manufactured by other Brazilian steel producers to which it adds further value through additional processing at its flat steel service centers.

The Company produces special and stainless steel used in tools and machinery, chains, fasteners, railroad spikes, special coil steel, grader blades, smelter bars, light rails, super light I-beams, elevator guide rails and other products that are made on demand for the Company s customers at its special steel units in Brazil, United States and India.

Competitive Position Brazil

The Brazilian steel market is very competitive. In the year ended December 31, 2016, the ArcelorMittal Brasil was the largest Brazilian crude steel producer and Gerdau was the second, according to the Brazilian Steel Institute (IABr - Instituto Aço Brasil).

World common long rolled steel demand is met principally by steel mini-mills and, to a much lesser extent, by integrated steel producers. In the Brazilian market, no single company competes against the Company across its entire product range. The Company has been facing some competition from long steel products imports, mainly coming from Turkey, with more extension from 2010. The Company believes that the diversification of its products, the solution developed by its fab shops units and the decentralization of its business provide a competitive edge over its major competitors.

In the domestic market, Gerdau is almost an exclusive supplier of blooms and billets to well-defined and loyal customers that have been purchasing from it regularly for over 15 years. Intense competition exists between the Company and ArcelorMittal in the slab and wire rod markets. Regarding the rebar market, competition in the Brazilian domestic market has increased in recent years due to two new entrants (Simec and Silat) and Companhia Siderurgica Nacional (CSN), which started rebar production.

Competitive Position Outside Brazil

Outside Brazil, notably in North America, the Company has increased its market share through acquisitions, and believes to be the second largest mini-mill steel producer in North America, with annual nominal capacity of 10.9 million tonnes of crude steel and 9.0 million tonnes of rolled products.

Gerdau s geographic market in North America encompasses primarily the United States, Canada and Mexico. The Company faces substantial competition in the sale of each of its products from numerous competitors in its markets. Rebar, merchant bars and structural shapes are commodity steel products for which pricing is the primary competitive factor. Due to the high cost of freight relative to the value of steel products, competition from non-regional producers is somewhat limited. Proximity of product inventories to customers, combined with competitive freight costs and low-cost manufacturing processes, are key to maintaining margins on rebar and merchant bar products. Rebar deliveries are generally concentrated within a 350-mile radius of the mini-mills and merchant bar deliveries are generally concentrated within a 500-mile radius. Some products produced by the Selkirk, Midlothian, Jacksonville, Jackson, Cartersville and Petersburg mini-mills are shipped greater distances, including overseas.

The Company s principal competitors include Commercial Metals Company (CMC), Nucor Corporation, Steel Dynamics Inc., and ArcelorMittal Inc. Despite the commodity characteristics of the rebar, merchant bar and structural markets, Gerdau believes it distinguishes itself from many of its competitors due to the Company s large product range, product quality, consistent delivery performance, capacity to service large orders and ability to fill most orders quickly from inventory. The Company believes it produces one of the largest ranges of bar products and shapes. The Company s product diversity is an important competitive advantage in a market where many customers are looking to fulfill their requirements from a few key suppliers.

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In South America, each country has a specific competitive position that depends on conditions in their respective markets. Most compete domestically and face significant competition from imports. More than 70% of shipments from Gerdau s South American Operation originate from Chile, Peru and Colombia. In this market, the main barriers faced by Gerdau sales are freight and transportation costs and the availability of imports. The main products sold in the South American market are the constructions, mechanic, agriculture and mining markets.

Currently, the Special steel operations in United States, the Company believes to have approximately 22% of the special steel market; in Brazil, Gerdau s special steel units are combined the biggest player in that market, with a stake of approximately 78%; and, in India the production and commercialization of rolled products began in 2013, and continue to ramp up, providing gradual access in the Indian market.

Business Cyclicality and Seasonality

The steel industry is highly cyclical. Consequently, the Company is exposed to fluctuations in the demand for steel goods that in turn cause fluctuations in the prices of these goods. Furthermore, since the production capacity of Brazil s steel industry exceeds its demand, it is dependent on export markets. The demand for steel goods and consequently the financial conditions and results of operations of steel producers, including the Company, are generally affected by fluctuations in the world economy and in particular the performance of the manufacturing, construction and automotive industries. Since 2003, the good performance of the world economy, especially in developing economies, such as China, has led to strong demand for steel goods, which contributed to historically high prices for Gerdau s steel goods. However, with the financial crisis that emerged in mid-2008, these prices have become unsupportable, especially given the expansion in world installed production capacity and the recent softening of demand. In the second quarter of 2008 and especially in early 2009, the United States and other European economies showed strong signs of a slowdown, which in turn affected many other countries. Over the past few years, developing economies have shown signs of a gradual recovery, while developed economies still present a challenging demand scenario. The Company believes that, in 2017, the steel industry will remain challenging and continue to present volatility, but the projection is that steel consumption will grow 0.8% compared to 2016.

In Gerdau s Brazilian and South American operations, shipments in the second and third quarters of the year tend to be stronger than in the first and fourth quarters, given the reduction in construction activity. In Gerdau s North American operations, demand is influenced by winter conditions, when consumption of electricity and other energy sources (i.e., natural gas) for heating increases and may be exacerbated by adverse weather conditions, contributing to increased costs and decreased construction activity, and in turn leading to lower shipments.

Information on the Extent of the Company s Dependence

The Company is not dependent on industrial, commercial or financial agreements (including agreements with clients and suppliers) or on new production processes that are material to its business or profitability. The Company also has a policy of diversifying its suppliers, which enables it to replace suppliers without affecting its operations in the event of failure to comply with the agreements, except in the case of its energy and natural gas supply.

In addition to the government regulations that apply to its industry in general, the Company is not subject to any specific regulation that materially or adversely affect its business.

In the case of a power outage, there are no alternative supply options available at most Gerdau mills due to the high volume and tension required for the operation of these plants. Some Gerdau small plants may choose, as an alternative, to use generators to compensate for the energy shortage. Moreover, the Ouro Branco mill generates 70% of its power needs internally using gases generated in the steel-making process.

In case of a lack of natural gas, the equipment could be adjusted to use diesel and LPG.

Gerdau s operations are spread across various geographic regions, which mitigates the risk of any electricity or natural gas supply problems in Brazil.

The distribution of electric power and natural gas is a regulated monopoly in most countries, which leads the distributor to be the only supplier in each geographic region. In some countries, regulations allow for a choice of electrical power or natural gas commodity supplier, allowing Gerdau to diversify its supply agreement portfolio.

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Production Inputs

Prices volatility

Gerdau s production processes are based mainly on the mini-mill concept, with mills equipped with electric arc furnaces that can melt ferrous scrap and produce steel products at the required specifications. The main raw material used at these mills is ferrous scrap, which at some plants is blended with pig iron. The component proportions of this mixture may change in accordance with prices and availability in order to optimize raw material costs. Iron, iron ore (used in blast furnaces) and ferroalloys are also important.

Although international ferrous scrap prices suffer high influence by the U.S. domestic market (since the United States is the largest scrap exporter), the price of ferrous scrap in Brazil varies from region to region and is influenced by demand and transportation costs.

Brazil and Special Steel Business Division - The Company s Brazilian mills use scrap and pig iron purchased from local suppliers. Due to the nature of the raw materials used in its processes, Gerdau has contracts with scrap generators, especially scrap from industrial sources, for its mini-mills in Brazil, acquiring scrap as necessary for the mills needs. Scrap for the Brazilian Operation is priced in Brazilian reais, thus input prices are not directly affected by currency fluctuations.

Due to its size, the Ouro Branco mill has developed over the last few years a strategy to diversify its raw materials, which are supplied through various types of contracts and from multiple sources, which include: (i) coking coals imported from Colombia, United States, Canada, Russia, Australia, Peru, among other origins with lower expression in volumes, as well as petroleum coke purchased from Petrobrás and charcoal chaff also acquired from other domestic suppliers; (ii) ferroalloys, of which 88% are purchased in the domestic market; and (iii) iron ore, which is mainly produced from its own mines and partially supplied by mining companies, most of them strategically located close to the plant.

North America Business Division - The main input used by the Company s mills in North America is ferrous scrap, and has consistently obtained adequate supplies of raw materials, not depending on a smaller number of suppliers. Due to the fact that the United States are one of the largest scrap exporters in the world, the prices of this raw-material, in this country, may fluctuate according to supply and demand in the world s scrap market.

South America Business Division - The main input used by the Company s mills in South America is ferrous scrap. This operation is exposed to market fluctuations, varying its prices according to each local market.

Ferrous Scrap

There are two broad categories of ferrous scrap: (i) obsolete scrap, which is steel from various sources, ranging from cans to car bodies and white goods; and (ii) industrial scrap, which is composed of scrap from manufacturing processes, essentially steel bushings and flashings, steel turnings and even scrap generated by production processes at steel producers, such as Gerdau. In Brazil, the use of scrap in electric arc furnaces varies between scrap from obsolescence and industrial scrap. Special Steel mills mainly use industrial scrap.

In 2016, Gerdau consumed more than 13 million tonnes of scrap, which accounted for significant gains from increasingly competitive operating costs.

Because ferrous scrap is one of its main raw materials in steel production, Gerdau is dedicated to improving its supply chain in various countries, aiming to develop and integrate micro and small suppliers into the Company s business. In Brazil, the main part of the scrap consumed by the Company comes from small scrap collectors who sell all their material to Gerdau, which provides a direct supply at more competitive costs for the Company. In North America, although smaller, the number is still significant, ensuring the competitiveness of the business in the region.

Brazil and Special Steel Business Divisions - The price of steel scrap in Brazil varies by region and reflects local supply, demand and transportation costs. The Southeast is the country s most industrialized region and generates the highest volume of scrap. Due to the high concentration of players in this region, competition is more intense.

Gerdau has six scrap shredders, including a mega-shredder at the Cosigua mill in Rio de Janeiro that is capable of processing shredded scrap in volumes that exceed 200 car bodies per hour.

North America Business Division - Ferrous scrap is the primary raw material. The availability of the scrap varies in accordance with the level of economic activity, the season of the year and export levels, leading to price fluctuations. Some mills in the North America Business Division have on-site dedicated scrap processing facilities, including shredder operations that supply a

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significant portion of their scrap requirements. Given that not all of the scrap it consumes is sourced from its own scrap yards, it purchases residual requirements in the market either directly or through dealers that source and prepare scrap.

In North America, all production units are semi-integrated mills or mini-mills, in which results of operations are closely related to the cost of ferrous scrap and its substitutes, which are the main input of mini-mills. Ferrous scrap prices are relatively higher during the winter months in the north hemisphere due to the impact of climate on collection and supply. Prices of ferrous scrap are subject to market forces beyond the Company s control, including demand from the United States and international steel producers, freight costs and speculation.

South America Business Division - The price of scrap in South America varies widely from country to country in accordance with supply, demand and transportation cost.

Pig Iron and Sponge Iron

Brazil Business Division - Brazil is an exporter of pig iron. Most of Brazil s pig iron is produced in the state of Minas Gerais by a number of small producers. Pig iron is a drop-in substitute for scrap and in Brazil it is an important component of the metal mix used to make steel in the mills. The price of pig iron follows domestic and international demand, and its cost production is basically composed by reducers and minerals.

North America Business Division - Scrap availability imprints a unique characteristic on the use of pig iron and sponge iron, which are used in limited amounts only to produce steels with particular characteristics.

Iron Ore

Iron ore is the main input used to produce pig iron at Gerdau s blast furnace mills located in the state of Minas Gerais, southeastern Brazil. The pig iron is used in the melt shops together with scrap, to produce steel.

Iron ore is purchased in its natural form as lump ore, pellet feed or sinter feed, or agglomerated as pellets. The lump ore and pellets are loaded directly into the blast furnace, while the sinter feed and pellet feed need to be agglomerated in the sinter plant and then loaded into the blast furnace, to produce pig iron. The production of 1.0 tonne of pig iron requires about 1.6 tonnes of iron ore.

Iron ore consumption in Gerdau mills in Brazil amounted to 7.0 million tonnes in 2016, partially supplied by mining companies adjacent to the steel plants and partially supplied by Gerdau s mines.

Other Inputs

In addition to scrap, pig iron, sponge iron and iron ore, Gerdau s operations use other inputs to produce steel such as ferroalloys, electrodes, furnace refracting materials, oxygen, nitrogen and other industrial gases and limestone, albeit in smaller amounts. Additional inputs associated with the production of pig iron are thermal-reducer, which is used in blast furnace mills, and natural gas, which is used at the DRI unit.

Ouro Branco mill s important raw materials and inputs also include solid fuels, comprising the metallurgical coal, used in the production of coke and also for the blast furnace pulverized injecting, this last one providing increase in productivity and consequently reduction in the final cost of pig iron. Besides the metallurgical coal, the Company also uses the anthracite, solid fuel used in the production of sinter. The gas resulting from the production of coke and pig iron are reused for generation of thermal energy that can be converted in electric energy for the mill.

The North American operations also use additional inputs. Various domestic and foreign companies supply other important raw materials or operating supplies required for the business, including refractory materials, ferroalloys and graphite electrodes that are available in the national and international market. Gerdau North America Business Division has obtained adequate quantities of these raw materials and supplies at competitive market prices. The Company is not dependent on any one supplier as a source for any particular material and believes there are adequate alternative suppliers available in the marketplace if the need to replace an existing one arises.

Energy Requirements

Steel production is a process that consumes large amounts of electricity, especially in electric arc mills. Electricity represents an important role in the production process, along with natural gas, which is used mainly in furnaces to re-heat billets in rolled steel production.

In Brazil, electricity is currently supplied to the Company s industrial units under two types of contracts:

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- Contracts in the Regulated Contractual Environment in which the Company is a Captive Consumer are used at the following units: Usiba and Açonorte. These involve state-owned companies or holders of government concessions. In these contracts, prices are defined by the National Electric Power Agency (ANEEL).

- Contracts executed in the Free Market Environment, in which Gerdau is a Free Consumer, are used by the following units: Araçariguama, Charqueadas, Cosigua, Cearense, Ouro Branco, Divinópolis, Barão de Cocais, Riograndense, São José dos Campos, Cumbica, Cotia, Pindamonhangaba, Mogi das Cruzes and Miguel Burnier. The load of these units is served by a portfolio of contracts and by self-generation. The power supply contracts are entered into directly with generation and/or distributing companies at prices that are pre-defined and adjusted in accordance with conditions pre-established by the parties. The transmission and distribution rates are regulated and revised annually by ANEEL. The Ouro Branco mill generates internally approximately 70% of its energy needs, using the gases produced during the steelmaking process. This makes the plant have significantly lower exposure to the energy market than mini-mills.

The Company currently holds the following power generation concessions in Brazil:

- Dona Francisca Energética S.A. (DFESA) operates a hydroelectric power plant with nominal capacity of 125 MW located between Nova Palma and Agudo, Rio Grande do Sul State (Brazil). Its corporate purpose is to operate, maintain and maximize use of the energy potential of the Dona Francisca Hydroelectric Plant. DFESA participates in a consortium (Consórcio Dona Francisca) with the state power utility Companhia Estadual de Energia Elétrica (CEEE). The shareholders of DFESA are Gerdau S.A. (51.8%), COPEL Participações S.A (23.0%), Celesc (23.0%), and Statkraft (2.2%).

- Caçu and Barra dos Coqueiros hydroelectric power plants, located in the state of Goiás (Brazil), with total installed capacity of 155MW and started its operations in 2010, with all power made available to the units located in Brazil s Southeast.

- Gerdau also holds the concession to implement São João Cachoeirinha Hydroelectric Plant Complex located in Paraná state. The complex will have total installed capacity of 105 MW. It is currently waiting for the granting of the environmental licenses.

The terms of the aforementioned generation concession agreements are for 35 years as of the signature of the agreement. As such: UHE Dona Francisca expires in 2033 and UHEs Caçu and Barra dos Coqueiros and UHEs São João - Cachoeirinha expire in 2037.

The supply of natural gas to all Brazilian units is regulated and performed under long-term contracts. Barão de Cocais and Divinópolis units do not have access to natural gas supplies.

In the United States, there are essentially two types of electricity markets: regulated and deregulated. In the regulated market, contracts are approved by Public Utility commissions and are subject to an approved rate of return. These regulated tariffs are specific to local distributors and generally reflect the average fuel costs of the distributor. In deregulated markets, the price of electricity is set by the marginal resource and fluctuates with demand. Natural Gas in the United States is completely deregulated. The U.S. energy market is benefiting from the increased exploration of shale gas, which is driving down prices of both electricity and natural gas.

In Colombia, the power purchase agreement was renewed in April 2016 at predetermined prices valid for 7 years and 6 months, beginning in June 2016. The natural gas agreements were renewed in late 2013 and are valid in part until 2019 and in part until 2021.

In Chile electricity is purchased under a long-term agreement (7 years). This agreement will finish on 2021, and the transmission electricity agreement will finish in 2034. The plant receives CNG (Compressed Natural Gas), the supply is done through piping lines in Renca and Colina plants.

In Uruguay, electricity is purchased under agreements renewed automatically on an annual basis from the state-owned utility UTE. Natural gas is purchased from Montevideo Gas with prices set by the Argentinean export tariff agreement (fuel oil as substitute). During 2016, the plant operated mostly on fuel oil, due to competitive reasons.

In Peru, has a current electricity contract until December 2025. The plant receives CNG (Compressed Natural Gas) by trucks and then is decompressed and distributed through internal pipeline to production processes.

Argentina uses natural gas (liquefied petroleum gas) as substitute. The natural gas purchase agreement was renewed for another year. In 2008, Gerdau Sipar entered into a long-term agreement to supply the new mill s power requirements.

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In Mexico, electricity is purchased under agreements regulated by the state-owned utility Companía Federal de Electricidad (CFE) and bilateral contracts with private companies. The natural gas agreements are annually and automatically renewed. Electricity and natural gas prices are indexed and adjusted monthly based on the NYMEX prices indices.

In India, electricity is supplied by the distribution company and by self-generation. In the event of rationing, the power deficit may be acquired through power swap agreements (short-term contracts).

Production Output

Gerdau S.A. Consolidated annual production (million tonnes)	**Year ended December 31, 2016**	**2015**	**2014**
Crude steel production	15,677	16,862	18,028
Rolled steel production	13,616	14,604	16,026
Iron Ore production	8,647	7,419	7,623

Technology and Quality Management

All Gerdau mills have a Quality Management System supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma , a set of statistical methods for improving the assessment of process variables, and the concept of Quality Function Deployment , a methodology through which technicians can identify and implement the customer requirements.

Given this level of quality management, mills are ISO 9001 or ISO TS 16949 certified as well as a sort of products and laboratories certification according demands. In general, production, technical services and quality teams are responsible for developing new products to meet customer and market needs.

Gerdau uses a Quality Management System developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the manufactured product high standards of quality. Gerdau s technical specialists do planned visits, some are randomly selected and some are scheduled visits, to its customers to check on the quality of the delivered products in order to guarantee the final user satisfaction for products purchased indirectly.

Due to the specialized nature of its business, the Gerdau special steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department (Research and Development) responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment that Gerdau uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for

the installation and commissioning of the equipment. Gerdau has technology transfer and benchmarking agreements with worldwide recognized performance companies.

As is common with mini-mill steelmakers, Gerdau usually acquires technology in the market rather than develops new technology through intensive process research and development, since steelmaking technology is readily available for purchase.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business. See item Information on the Extent of the Company s Dependence for further details.

Sales Terms and Credit Policy

The Company s Brazilian sales are usually made on a 21/28-day settlement CIF (Cost, Insurance and Freight) basis. Comercial Gerdau, the retail arm of Gerdau in Brazil, sells on a 28 to 30-day settlement basis, mainly CIF. Brazilian customers are subject to a credit approval process. The concession of credit limits is controlled by a corporate-level system (ECC) that can be accessed by all sales channels. The credit and collection department is responsible for evaluating, determining and monitoring credit in accordance with the credit limit policy. This policy includes the active participation of staff from the various sales channels. At Comercial Gerdau, in particular, the criteria for retail sales also include practices such as the use of credit card services and BNDES. Gerdau exports are guaranteed via letters of credit and/or pre-payment before the product is shipped. Exports to Gerdau s subsidiaries may be sold on credit at market interest rates.

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Gerdau North American credit terms to customers are generally based on customary market conditions and practices. The Company´s North American business is seasonal, with orders in the second and third quarters tending to be stronger than those in the first and fourth quarters, primarily due to weather-related slowdowns in the construction industry.

The Company´s Special Steel Operation in the United States and Brazil Special Steel Operations have their own credit departments for costumer s credit analyses.

As a result of these policies, the Company s provision for doubtful accounts has been at low levels, however, 2016 showed an increase in provision for doubtful accounts due to the higher default levels recorded in Brazil. On December 31, 2016, provision for doubtful accounts was 5.3% based on gross account receivables as per Note 5 to the Consolidated Financial Statements, on December 31, 2015 was 4.0% and on December 31, 2014 this provision was 2.2% of gross account receivables. Gerdau has improved its credit approval controls and enhanced the reliability of its sales process through the use of risk indicators and internal controls.

Insurance

The Company maintains insurance coverage in amounts that it believes suitable to cover the main risks of its operating activities. The Company has purchased insurance for its integrated mill Ouro Branco to insure against operating losses, which covers amounts up to approximately US$ 4.8 billion (R$ 18 billion as of April 30, 2016), including material damage to installations (US$ 4.3 billion) and losses of gross revenues (US$ 500 million), such as halts in production due to business interruptions caused by accidents for a period up to twelve months. The Company s current insurance policy relating to the Ouro Branco mill remains effective until April 30, 2017. The Company s mini-mills are also covered under insurance policies which insure against certain operational losses resulting from business interruptions.

Trade Investigations and Government Protectionism

Over the past several years, exports of steel products from various companies and countries, including Brazil, have been subject to antidumping, countervailing duties and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies ability to access such import markets. Until now, however, these investigations have not had a significant impact on the Company s export volumes.

Material effects of government regulation on the Company s activities

The Company s steel production activities are not subject to special authorizations other than the licenses and permits typical to the industry. The Company maintains a good relationship with the government agencies responsible for issuing common authorizations and does not have any history of problems in obtaining them.

Gerdau Aços Longos S.A. holds the concession for the Caçú and Barra dos Coqueiros hydroelectric plants, which have aggregate installed capacity of 155MW and are located in the southeastern region of the State of Goias between the cities of Caçi and Cachoeira Alta, as per concession contract number 089/2002.

Chopim Energia S.A. (50% direct and 50% through Itaguaí Comércio, Importação e Exportação Ltda.) holds the concession for the São João and Cachoeirinha Energy Complex, which corresponds to the São João and Cachoeirinha hydroelectric plants, which have aggregate installed capacity of 105 MW and are located in the southeastern region of the State of Paraná between the cities of Honório Serpa and Clevelândia, as per concession contract number 016/2002.

Gerdau S.A. holds an interest of 51.82% in the company Dona Francisca Energética S.A. - DFESA, which, in consortium with Companhia Estadual de Energia Elétrica CEEE, holds the concession for the Dona Francisca Hydroelectric Plant located between the cities of Agudo and Nova Palma in the State of Rio Grande do Sul, which has installed capacity of 125 MW, as per concession contract 188/1998.

Gerdau Açominas S.A. is authorized to operate the Açominas Thermo Electric Power Plant (103 MW) located in its industrial complex in the city of Ouro Branco, as authorized by Administrative Rule (*Portaria*) 275/MME of February 23, 1984 and subsequent resolutions.

Activities involving the generation of electric power are subject to the rules and regulations of the National Electric Power Agency (ANEEL) and to oversight by the agency. Operating Licenses, which are issued by the respective state environmental departments or agencies, are required to operate the hydroelectric plants, which must also comply with the obligations of the respective concession contracts. All projects in which the Company participates are functioning perfectly, with valid licenses and no objections to their operations. The exception is Chopim, whose construction has yet to begin.

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The commercial operation of ports is subject to authorization by the federal government, as regulated by Federal Law 12,815 of June 5, 2013. Gerdau has two Private Port Terminals outside of organized port areas located in Vitória, ES and Salvador, BA, which are known, respectively, as the Praia Mole Private Port and Mixed Use Terminal and the Gerdau Maritime Terminal. The former, with Adhesion Contract 112/2016, was signed on June 30, 2016, with duration of 25 years, which may be extended successively for equal periods, as provided for by law. There is no specific description of cargoes, with authorization for the handling and/or storage in the TERMINAL of own and third-party cargo destined or originating from water transportation. The latter, with Adhesion Contract 064/98, was signed on November 17, 1995, with duration of 25 years, which may be extended successively for equal periods, as provided for by law, with the following cargo authorized: pelletized iron ore, natural iron ore, pig iron, scrap metal, manganese ore, coke, copper-alumina concentrate, blast furnace slag, clinker, iron ore, green petroleum coke, fertilizers, anthracite, barite and coal. The process to adapt in accordance with the new regulatory framework for the Gerdau Maritime Terminal contract is currently in progress.

This authorization is subject to oversight by the National Water Transportation Agency (ANTAQ) and, alternatively, by the Special Department of Ports (SEP).

Gerdau s mining explorations in Brazil are subject to the prevailing rules established by the Brazilian Mining Code (*Decreto-Lei nº 227, de 28 de fevereiro de 1967*) and un-codified mining legislation, with mining exploration substantiated by mining property rights and titles. Gerdau acquired the surface of the areas corresponding to the respective mining rights, as well as all other mining property rights and titles, through an Asset Sale and Rights Assignment Agreement entered into between Gerdau Açominas S.A. and Companhia Paraibunas de Metais, Siderúrgica Barra Mansa S.A., Votorantim Metais Ltda. and Votorantim International Holding N.V. on May 19, 2004. The Company s mining explorations are subject to the limitations imposed by Brazil s Federal Constitution and Mining Code and by the laws and regulations pertaining to exploration activities, which include requirements concerning, among other things, how the mineral deposits are used, workplace health and safety, environmental protection and restoration, pollution prevention and health and safety of local communities where the mines are located. The Brazilian Mining Code also establishes certain requirements for sending notifications and information. The DNPM - Departamento Nacional de Produção Mineral (National Department of Mineral Production) is responsible for granting, regulating and promoting the planning and activities encouraged for mineral exploration and use of mineral resources as well as for monitoring geological and mineral research, and mineral technologies as well as to ensure, control and monitor mining activities in mining areas). Gerdau holds the ownership of all land and all mining property rights and titles for the mines it currently explores, as well as the respective environmental licenses to commercially operate the mines located in the cities of Miguel Burnier, Várzea do Lopes and Gongo Soco in the Brazilian state of Minas Gerais. Brazil s Mining Code and Federal Constitution impose on companies that conduct exploration activities, such as us, requirements concerning, among other things, the manner in which mineral deposits are used, worker health and safety, environmental protection and restoration, pollution prevention and the health and safety of the local communities where the mines are located. The Mining Code also imposes certain notification and reporting requirements.

Currently, in the House of Representatives (*Câmara dos Deputados*), *Projeto de Lei nº 5.807/2013* is being discussed, which, if and when approved, will replace the current Brazilian Mining Code. Among the main innovations provided by *Projeto de Lei nº 5.807/2013* includes the following: (i) creation of the National Mining Agency - ANM, replacing the DNPM and the creation of the National Council of Mineral Policy - CNPM; (ii) research permit and mining concession in a single process, with permission, or calling public bidding process, depending on the area and substance; (iii) the initial period of 40 years, renewable for 20 years for mineral concessions, which will follow the bidding rules established by Law No. 12.462, of August 4, 2011; (iv) new system for calculating the CFEM; and (v) establishing new fees related to mining activity.

The mineral rights held by Gerdau cover a total of 8,837.19 ha and the period of concessions is until the exhaustion of the deposits, on the condition that we perform legal requirements annually. The table below shows the DNPM processes held by Gerdau:

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Mining Rigth DNPM	City	Location	State
1,978/1935	BARÃO DE COCAIS	GONGO SOCO	MG
724/1942	OURO PRETO / OURO BRANCO	MORRO GABRIEL	MG
4,575/1935	OURO PRETO	MIGUEL BURNIER	MG
3,613/1948	OURO PRETO	MIGUEL BURNIER	MG
5,303/1948	OURO PRETO	MIGUEL BURNIER	MG
5,514/1956	OURO PRETO	MIGUEL BURNIER	MG
5,975/1956	OURO PRETO	MIGUEL BURNIER	MG
6,549/1950	OURO PRETO	MIGUEL BURNIER	MG
930,600/2009	OURO PRETO	GM MIGUEL BURNIER	MG
3,583/1957	ITABIRITO / MOEDA	VÁRZEA DO LOPES	MG
3,584/1957	ITABIRITO	VÁRZEA DO LOPES	MG
3,585/1957	ITABIRITO	VÁRZEA DO LOPES	MG
8,141/1958	ITABIRITO	VÁRZEA DO LOPES	MG
6,255/1960	ITABIRITO	VÁRZEA DO LOPES	MG
317/1961	ITABIRITO	VÁRZEA DO LOPES	MG
5,945/1961	ITABIRITO	VÁRZEA DO LOPES	MG
932,705/2011	ITABIRITO	GM VÁRZEA DO LOPES	MG
833,209/2006	OURO PRETO / OURO BRANCO	DOM BOSCO	MG
832,090/2005	OURO PRETO / OURO BRANCO	DOM BOSCO	MG
832,044/2006	OURO BRANCO	DOM BOSCO	MG
830,158/2007	OURO PRETO	DOM BOSCO	MG
830,159/2007	OURO PRETO	DOM BOSCO	MG
830,160/2007	OURO PRETO	DOM BOSCO	MG
831,640/2003	OURO PRETO	DOM BOSCO	MG
830,475/2007	OURO PRETO	DOM BOSCO	MG
832,620/2006	OURO PRETO	MIGUEL BURNIER	MG
830,798/2013	OURO PRETO	MIGUEL BURNIER	MG
832,377/2014	OURO PRETO	MIGUEL BURNIER	MG
832,375/2014	OURO PRETO	MIGUEL BURNIER	MG
833,018/2015	ITABIRITO	VÁRZEA DO LOPES	MG
832.625/2016	ITABIRITO	VÁRZEA DO LOPES	MG

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C. ORGANIZATIONAL STRUCTURE

The Company s operational structure (including its main operating subsidiaries engaged in steel production) was as follows on December 31, 2016:

The table below lists the significant consolidated subsidiaries of Gerdau on December 31, 2016, 2015 and 2014:

Equity Interests

Consolidated company	Country	Total capital (*) 2016	2015	2014
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda. - Grupo Gerdau	Brazil	100.00	100.00	100.00
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	100.00	100.00
Gerdau Açominas S.A.	Brazil	99.35	99.35	95.85
Gerdau Aços Longos S.A. and subsidiary (2)	Brazil	99.11	99.11	94.34
Gerdau Steel Inc.	Canada	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiary (3)	USA	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (4)	Brazil	70.93	65.75	88.74
Gerdau Holdings Europa S.A. and subsidiaries	Spain		100.00	100.00
Gerdau América Latina Participações S.A.	Brazil	99.12	99.12	94.22
Gerdau Chile Inversiones Ltda. and subsidiaries (5)	Chile	99.00	99.99	99.99
Gerdau Aços Especiais S.A.	Brazil	99.55	99.56	97.17

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Gerdau Hungria Holdings Limited Liability Company and subsidiaries (6)	Hungary	100.00	100.00	100.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	90.03	90.03	90.03
Diaco S.A. and subsidiary (7)	Colombia	99.68	99.68	99.68
Gerdau GTL México, S.A. de C.V. and subsidiaries (8)	Mexico	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.73	97.73	97.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	100.00
Sipar Gerdau Inversiones S.A.	Argentina	99.99	99.99	99.99
Sipar Aceros S.A. and subsidiary (9)	Argentina	99.96	99.96	99.96
Cleary Holdings Corp.	Colombia		100.00	100.00
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00	100.00	100.00
Gerdau Steel India Ltd.	India	98.90	98.90	98.83

(*) The voting capital is substantially equal to the total capital. The interests reported represent the ownership percentage held directly and indirectly in the subsidiary.

(1) Subsidiaries: Gerdau Ameristeel US Inc., Gerdau Reinforcing Steel, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

(4) Fixed-income investment fund managed by Banco JP Morgan S.A.

(5) Subsidiaries: Aza Participaciones S.A., Gerdau Aza S.A., Armacero Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A.

(6) Subsidiaries: Gerdau Holdings Europa S.A. y CIA., Bogey Holding Company Spain S.L.

(7) Subsidiaries: Cyrgo S.A.

(8) Subsidiaries: Sidertul S.A. de C.V. and GTL Servicios Administrativos México, S.A. de C.V.

(9) Subsidiary: Siderco S.A.

The Company s investments in Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Gerdau Metaldom Corp. in the Dominican Republic in which the Company owns a 45% stake, the investment in Corsa Controladora, S.A. de C.V. in Mexico, in which Gerdau has a 49% stake, the investment in Corsa Controladora, S.A.P.I de C.V. in Mexico, in which Gerdau has a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake are accounted in the Company s financial statements using the equity method (for further information see Note 3 Consolidated Financial Statements).

The operating companies that are fully consolidated or accounted according to the equity method in the financial statements of Gerdau S.A. are described below:

Gerdau Aços Longos S.A. - This company produces common long steel and has 9 mills distributed throughout Brazil and annual installed capacity of 4.7 million tonnes of crude steel. This company also sells general steel products and has steel distribution centers located throughout Brazil.

Gerdau Açominas S.A. - Açominas owns the mill located in the state of Minas Gerais, Brazil. The Ouro Branco mill is Gerdau s largest unit, with annual installed capacity of 4.5 million tonnes of crude steel, accounting for 48.8% of Gerdau s crude steel output in the Brazil Business Division.

Gerdau Ameristeel Corporation - Gerdau Ameristeel has annual capacity of 10.9 million tonnes of crude steel and 9.0 million tonnes of rolled products. The Company is one of the largest producers of long steel in North America. Gerdau Ameristeel subsidiaries are: Gerdau Ameristeel US Inc., Gerdau Reinforcing Steel, Gerdau Ameristeel Sayreville Inc., TAMCO Steel and Chaparral Steel Company.

Gerdau Aços Especiais S.A. - This company is headquartered in Charqueadas in the Brazilian state of Rio Grande do Sul and has consolidated annual installed capacity of 430,000 tonnes of crude steel and 465,000 tonnes of rolled products.

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Gerdau MacSteel Inc. This company is the largest special steel producer in U.S., has three units and combined annual production capacity of 1.5 million tonnes of crude steel and 1.5 million tonnes of rolled products.

Gerdau Laisa S.A. - In 1980, the Company acquired the Laisa mini-mill in Uruguay. Gerdau Laisa is the one of largest long steel producers in Uruguay and has annual installed capacity of 100,000 tonnes of crude steel and 90,000 tonnes of rolled products.

Gerdau Chile Inversiones Ltda. - The company has two units in Chile with combined annual production capacity of 520,000 tonnes of crude steel and 530,000 tonnes of rolled steel.

Sipar Gerdau Inversiones S.A. - Sipar, through its operational subsidiary Sipar Aceros S.A., entered the Argentinean market in December 1997 and has annual installed capacity of 263,000 tonnes of rolled products.

Diaco S.A. - Diaco is one of the largest producers of steel and rebar in Colombia and has annual installed capacity of 674,000 tonnes of crude steel and 545,000 tonnes of rolled products.

Empresa Siderúrgica del Perú S.A.A. - Acquired in 2006, Siderperú is a long steel producer with annual installed capacity of 720,000 tonnes of crude steel and 573,000 tonnes of rolled steel.

Gerdau GTL México, S.A. de C.V. - The subsidiary of this company is a long steel producer located in the metropolitan area of Mexico City with annual installed capacity of 500,000 tonnes of crude steel and 400,000 tonnes of rolled products.

Sizuca - Siderúrgica Zuliana, C. A. - In June 2007, Gerdau acquired Sizuca - Siderúrgica Zuliana located in Ciudad Ojeda, Venezuela. Sizuca owns a mini-mill that produces concrete reinforcement bars. Sizuca has annual installed capacity of 250,000 tonnes of crude steel and 170,000 tonnes of rolled products.

Corsa Controladora, S.A. de C.V. - In 2008, the Company acquired a 49% stake in Corsa Controladora, S.A. de C.V. (Mexico). Corsa Controladora owns 100% of the capital of Aceros Corsa, S.A. de C.V. and its distributors. Located in the metropolitan area of Mexico City, Corsa is a mini-mill that produces long steel (light merchant bars).

Multisteel Business Holdings - In 2014, the Company completed the merger of its associate Multisteel Business Holdings Corp. with the Dominican company Metaldom, originating the jointly-controlled entity Gerdau Metaldom Corp., which will produce long and flat steel for the areas of civil construction, industrial and agricultural, and also scrap processing operations and PVC pipes, with over one million tons/year of installed capacity. As a result of the merger, the Company has contributed its interest of 79.97% on the associate Multisteel Business Holdings Corp. into the newly formed entity Gerdau Metaldom, in exchange of 45% interest on Gerdau Metaldom Corp. This transaction was recorded on fair value basis, which was substantially equivalent to the book value of the previous investment.

Gerdau Steel India Private Ltd. - Steel mill in Tadipatri, located in the southern part of Andhra Pradesh state in India. The crude steel capacity of this unit is 250,000 tonnes and 300,000 of rolled steel capacity.

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D. PROPERTY, PLANT AND EQUIPMENT

Facilities

Gerdau s principal properties are for the production of steel, rolled products and drawn products. The following is a list of the locations, capacities and types of facilities, as well as the types of products manufactured at December 31, 2016:

	LOCATION		INSTALLED CAPACITY (1,000 tonnes)				
PLANTS	COUNTRY	STATE	PIG IRON/ SPONGE IRON	CRUDE STEEL	ROLLED PRODUCTS	EQUIPMENT	PRODUCTS
BRAZIL OPERATION			**5,252**	**9,229**	**7,090**		
Açonorte	Brazil	PE		265	242	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Barão de Cocais	Brazil	MG	330	330	196	Integrated/blast furnace, LD converter and rolling mill	Merchant bars
Cearense	Brazil	CE		198	161	EAF mini-mill, rolling mill	Rebar and merchant bars
Cosigua	Brazil	RJ		932	1,414	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Divinópolis	Brazil	MG	430	570	460	Integrated/blast furnace, EOF converter and rolling mill	Rebar and merchant bars
Guaíra	Brazil	PR		540*		EAF mini-mill	Billet
Riograndense	Brazil	RS		450	495	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Usiba	Brazil	BA		495*	397*	Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod and drawn products
São Paulo	Brazil	SP		950	600	EAF mini-mill, rolling mill	Billets, rebars and coil rebar
Contagem	Brazil	MG				Blast furnace	Pig iron
Sete Lagoas	Brazil	MG	132			Blast furnace	Pig iron
Ouro Branco	Brazil	MG	4,360	4,500	3,126	Integrated with blast furnace, LD converter and rolling mills	Billets, blooms, slabs, wire rod, heavy structural shapes and HRC
NORTH AMERICA OPERATION				**10,852**	**8,995**		
Mexico	Mexico			500	400	EAF mini-mill, rolling mill	Rebar, merchant bars and beams

Beaumont	USA	TX	600	602	EAF mini-mill, rolling mill	Wire rod
Calvert City	USA	KY		362	Rolling Mill	Merchant bars, medium structural channel and beams
Cambridge	Canada	ON	330*	290	EAF mini-mill, rolling mill	Rebar, merchant bars
Cartersville	USA	GA	967	580	EAF mini-mill, rolling mill	Merchant bars, structural shapes, beams

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Charlotte	USA	NC		459	281	EAF mini-mill, rolling mill	Rebar, merchant bars
Jackson	USA	TN		714	467	EAF mini-mill, rolling mill	Rebar, merchant bars
Jacksonville	USA	FL		763	620	EAF mini-mill, rolling mill	Rebar, merchant bars
Knoxville	USA	TN		520	550	EAF mini-mill, rolling mill	Rebar
Manitoba - MRM	Canada	MB		361	282	EAF mini-mill, rolling mill	Special sections, merchant bars, rebar
Sayreville	USA	NJ		730	600	EAF mini-mill, rolling mill	Rebar
St. Paul	USA	MN		527	420	EAF mini-mill, rolling mill	Rebar, merchant bars, special bars (SBQ) and round bars
Whitby	Canada	ON		900	788	EAF mini-mill, rolling mill	Structural shapes, rebar, merchant bars
Wilton	USA	IA		359	320	EAF mini-mill, rolling mill	Rebar and merchant bars
Midlothian	USA	TX		1,741	1,408	EAF mini-mill, rolling mill	Rebar, merchant bars and beams
Petersburg	USA	VA		857	562	EAF mini-mill, rolling mill	Merchant bars and beams
Rancho Cucamonga	USA	CA		524	463	EAF mini-mill, rolling mill	Rebar
SOUTH AMERICA OPERATION			**400**	**2,444**	**2,171**		
Chile	Chile			520	530	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, nails, wire and mesh.
Uruguay	Uruguay			100	90	EAF mini-mill, rolling mill	Rebar, merchant bars and mesh
Colombia	Colombia			674	545	EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, shapes and mesh
Argentina	Argentina				263	Rolling mill, drawing mill	Rebar, merchant bars and mesh
Peru	Peru		400	720	573	Blast Furnace, EAF mini-mill, rolling mill	Rebar and merchant bars
Venezuela	Venezuela			250	170	EAF mini-mill, rolling mill	Rebar
SPECIAL STEEL OPERATION			**275**	**3,125**	**3,733**		
Pindamonhangaba	Brazil	SP		620	1.188	EAF mini-mill, rolling mill, finishing and foundry	Bars, wires, wire rod, finished and rolled bar, rolling mill rolls.
Mogi das Cruzes	Brazil	SP		375*	264	EAF mini-mill, rolling mill and finishing	Bars, special profiles
Charqueadas	Brazil	RS		430	465	EAF mini-mill, rolling mill and finishing	Bars, special profiles, wires, wire rod, cold finished bar
Fort Smith	USA	AR		550	550	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar

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Jackson	USA	MI		300	276	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
Monroe	USA	MI		600	690	EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
India	India	AP	275	250	300	Integrated/blast furnace, converter and rolling mill	Pig iron, billets and rolled bars
GERDAU TOTAL			**5,927**	**25,470**	**21,989**		

*Temporarily not in use.

While electric arc furnace (EAF) mills produce crude steel from raw materials such as steel scrap or pig iron, a mill with a blast furnace or direct reduction iron (DRI) produces pig iron or sponge iron for use in the production of crude steel, with iron ore and natural gas being the main raw materials.

Mining Assets

Iron ore mines

Gerdau s activities related to iron ore mines began after the acquisition of the mining rights of Grupo Votorantim, located in the municipalities of Ouro Preto (Miguel Burnier district), Itabirito and Barão de Cocais, in 2004. These areas are located within the iron producing region in the state of Minas Gerais, Brazil, which is one of the most prominent mineral provinces in Brazil, as illustrated in the figure below.

Ever since this initiative, and with an iron ore consumption rate of approximately 9.0 million tonnes per annum required by its steel production units located in Ouro Branco, Barão de Cocais, Divinópolis and Sete Lagoas, in the State of Minas Gerais, Gerdau s supply is partially handled by mining companies along with steel plants, and the mines owned by the company.

Focused on ensuring its iron ore self-sufficiency within the state of Minas Gerais, and searching for the opportunity to add value to its business by the use of its own mineral resources, Gerdau until 2014 conducted surveys to assess and implement expansions projects of its mining operations in order to establish itself as a player in the global iron ore market. However, with the current price of iron ore in the international market, Gerdau decided to focus only on the production of iron ore to its self-sufficiency.

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Gerdau s mining location

Current iron ore production units, as well as any future units, are or will be primarily comprised of open pit mines, processing plants, waste piles, tailings dams, and logistics and operational support infrastructure.

Current and future iron ore production units are grouped as follows:

- Miguel Burnier/Dom Bosco Complex: encompasses the mines located in Miguel Burnier, as well as the Dom Bosco mines;
- Várzea do Lopes Complex;
- Gongo Soco. There are no mining activities in this location.

The table below shows the payments made to the Brazilian government related to resource extractions, related to 2016.

		CFEM (Financial Compensation for Exploitation of Mineral Resources)		TFRM (Inspection Fee for Mineral Resources)
Miguel Burnier	R$	155 thousand	R$	3,139 thousand
Várzea do Lopes	R$	11,668 thousand	R$	349 thousand

Financial Compensation for Exploitation of Mineral Resources (CFEM)

As established by the Brazilian Federal Constitution, CFEM is due to the states, the Federal District, the municipalities and agencies of the federal public administration by way of consideration for the economic use of mineral resources in their respective territories, leaving the DNPM to carry out the oversight its collection.

In iron ore trading, the CFEM is calculated based on the net amount obtained from the sale of mineral products. Net sales revenue is understood as the amounts received from the sale of mineral products after deducting the taxes (ICMS, PIS/COFINS) levied on the sale as well as the expenses with transport, insurance and freight.

When the mineral substance is consumed, manufactured or processed, the CFEM is always applicable after the last processing stage adopted and before its manufacturing.

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The rate of CFEM applicable to iron ore is 2.0%.

Inspection Fee for Mineral Resources (TFRM)

The event triggering the TFRM is the sale of the extracted mineral or ore or its transfer between facilities owned by the same person in a different state of Brazil or abroad. The fee is paid by the natural or legal persons authorized to research, extract, explore or use mineral resources for any purpose.

In the State of Minas Gerais, the amount of TFRM, according to Article 8 of Law No. 19.976/2011, corresponds to one unit of the Fiscal Unit of the State of Minas Gerais (UFEMG) in force on the due date of the fee per tonne of mineral or crude ore extracted.

The amount payable as TFRM is calculated on a monthly basis based on the amounts of minerals or ore indicated on the tax documents for the sale or transfer to a facility owned by the same person located in a different state of Brazil or abroad. This amount in tonnes is then subjected to deductions consisting of the amounts of mineral or ore acquired, the amounts received from transfers between facilities owned by the same person located in another state of Brazil or abroad, and the amounts extracted from the area of the state of Minas Gerais under the scope of the Northeast Development Superintendence (SUDENE) and received in transfer from facilities owned by the same person.

If the number of tonnes calculated based on the sales and transfers in the period is less than the number of tonnes to be deducted, the difference will be carried forward for deduction in the subsequent calculation periods.

Location and Access

Miguel Burnier/Dom Bosco Complex

Miguel Burnier and Dom Bosco are located in the municipality of Ouro Preto, in the southwestern portion of the iron producing region in the state of Minas Gerais, Brazil, at approximately 80 km from Belo Horizonte and 5 km from Vila do Pires, on federal highway BR-040. The Dom Bosco Mine is located at approximately 11 km from the Miguel Burnier Mine. Vila do Pires is established off both sides of federal highway BR-040, north from the city of Congonhas. The mines are accessed through a 3 km-long non-paved road from the Miguel Burnier village.

Várzea do Lopes Complex

Várzea do Lopes is located in the Itabirito municipality, in the western portion of the iron producing region in the state of Minas Gerais, Brazil, and is established at approximately 46 km from downtown Belo Horizonte. Access to the mine from Belo Horizonte is through BR-040, in the direction towards Rio de Janeiro. Várzea do Lopes is located at approximately 20 km from Miguel Burnier, in a straight line.

Gongo Soco

Gongo Soco is located in the municipality of Barão de Cocais, in the northwestern portion of the iron producing region in the state of Minas Gerais, Brazil, at approximately 110 km from Belo Horizonte, 8 km from the municipality of Barão de Cocais, and 170 km from Miguel Burnier. Access from Belo Horizonte is through BR-381/262 and MG-436 highways.

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The figure below displays the locations of current and future iron ore production units and main accesses:

Geology and Mineralization

The iron ore sites owned by Gerdau are located in the Quadrilátero Ferrífero (QF), a large gold, iron, aluminum and manganese metallogenetic district covering approximately 7,000 km² in the southern portion of the São Francisco Craton.

The Quadrilátero Ferrífero consists of Archaean terrains (Rio das Velhas Supergroup) overlain by Proterozoic platform sediments (Minas and Espinhaço Supergroups). The current setting of the Quadrilátero Ferrífero results from two deformational events. The first represents an extensional event of Paleoproterozoic age (2100-1700 My) forming granitic-gneissic domes with syncline cores overlying the strata of the Rio das Velhas and Minas Supergroups. The second is a compressional event associated with the closure of the Africa/Brazil proto-ocean (650-500 My) located east of the QF. A west-oriented folding belt developed during this event.

- Miguel Burnier: The Miguel Burnier Complex is located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Gandarela and Cauê Formations and rocks of the Piracicaba Group (Minas Supergroup) outcrop therein. The Serra Dom Bosco area is regionally characterized as a syncline, known as Dom Bosco Syncline. The typologies have been classified according to information collected during field visits, from internal reports, drill cores, thin plates, etc.

- Dom Bosco: The Dom Bosco Mine is also located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Cauê Formation and Piracicaba Group (Minas Supergroup) outcrop therein.

- Várzea do Lopes: The Várzea do Lopes Complex is located in the western portion of the QF, Serra da Moeda. Itabirites and rocks of the Cauê Formation and Gandarela Formation (Minas Supergroup) outcrop therein.

- Gongo Soco: The geological mapping carried out characterized six pre-Cambrian lithologic units and a Tertiary/Quaternary unit. The pre-Cambrian units outcrop as a normal stratigraphic sequence, being the oldest sequence topographically located on the higher portion of the area, and the youngest on the lower portion, is located in the structural framework of the normal limb of the Gandarela Syncline.

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Facilities

Gerdau s mines and facilities are currently operated with the purpose of supplying its steel plants located in the state of Minas Gerais. However, the Company is striving to develop its mineral resources and achieve more significant operations. Planned and ongoing operations are described below. The Run of Mine (ROM) extracted from them is transported to ore treatment plants (OTP). In order to meet processing requirements, the following production units are considered:

- OTP 1: commissioned, in Miguel Burnier, since October 2004, with production capacity of 1.5 Mtpa (natural basis) of sinter feed (wholly-owned by Gerdau);

- OTP 2: phase 1 started operations (start up and ramp up) in September 2013, in Miguel Burnier, with total production capacity of 5.6 Mtpa (natural basis) of lump ore, small lump ore, sinter feed, and pellet feed (wholly-owned by Gerdau).

Gerdau total production capacity today is 11.5 Mtpa, considering capacity from OTP 1, OTP 2 and dry processing plants.

The main processing stages of the production units under operational or implementation phases are set forth in the table below.

OTP 1	**OTP 2 (phase 1)**
Crushing;	Crushing;
Screening classification;	Screening classification;
Grinding;	Deliming;
Spiral concentrators;	Screening dewatering;
Desliming;	Tailing thickening;

The average monthly electricity consumption of processing plants in 2016 was 1,379 (kW / h).

A summary of the water supply system in 2016 for the processing facilities is provided in the table below. There are sufficient reserves of water to supply all covered facilities, in compliance with applicable legal criteria.

	Total Water with Recirculation (m3)	**Make up (m3)**
OTPs - Ore Treatment Plants	1,189,200	539,200

Investment Programs

In fiscal year 2016, capital expenditure on fixed assets was R$ 1,323.9 million. Of this total, 46.0% was allocated to the operations in Brazil and the remaining 54.0% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Division a total of R$ 608.5 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill, which came on stream in July, 2016.

North America Business Division this business division spent R$ 227.4 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

South America Business Division in 2016, the South American units spent R$ 347.0 million for capital expenditure on fixed assets distributed among the countries in which the units from this business division are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year and will start operation in March, 2017.

Special Steel Business Division the special steel units spent R$ 140.9 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent on the maintenance of the production units.

The disbursements in fixed assets planned for 2017 are estimated at R$ 1.3 billion, and include productivity and maintenance investments. The table below shows the main projects for the years to come:

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Environmental Issues

Gerdau S.A is currently in compliance with environmental regulations. The Company also believes that there are no environmental issues that could affect the use of its fixed assets.

In 2016, Gerdau S.A. invested R$ 234.0 million in the improvement of its eco-efficiency practices and in technologies for the protection of the air, water and soil.

Environmental Regulation

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. Its manufacturing facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of its environmental programs and uses outside experts where needed. The Company works to assure that its operations maintain compliance in all material respects with the applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants, it conducts an assessment of potential environmental issues and prepares a work plan in compliance with the local authorities.

In most countries, both federal and state governments have the power to enact environmental protection laws and issue regulations under such laws. In addition to those rules, the Company is also subject to municipal environmental laws and regulations. Under such laws, individuals or legal entities whose conduct or activities cause harm to the environment are usually subject to criminal and administrative sanctions, as well as any costs to repair the actual damages resulting from such harm.

Individuals are subject to penalties and sanctions that range from fines to imprisonment and for legal entities the suspension or interruption of its operations and prohibition to enter into any contracts with government agencies.

Government environmental protection agencies may also impose administrative sanctions on individuals and entities that fail to comply with environmental laws and regulations that include:

- fines;
- partial or total suspension of operations;

- obligations to provide compensation for recovery works and environmental projects;
- forfeiture of or restrictions on tax incentives and benefits;
- closing of establishments or enterprises; and
- forfeiture or suspension of participation in credit lines with official credit agencies.

The steel industry uses and generates substances that may damage the environment. The Company s management performs frequent surveys with the purpose of identifying potentially impacted areas and records based on best cost estimate. The amounts estimated for investigation, treatment and cleaning of potentially affected sites, totaling R$ 83,806 as of December 31, 2016 (R$ 17,737 recorded in Current Liabilities and R$ 66,069 recorded in Non-Current Liabilities), R$ 163,806 as of December 31, 2015 (R$ 27,736 recorded in Current Liabilities and R$ 136,070 recorded in Non-Current Liabilities) and R$ 116,421 as of December 31,2014 (R$ 23,025 recorded in Current Liabilities and R$ 93,396 recorded in Non-Current Liabilities). The Company used estimates and assumptions to determine the amounts involved, which can vary in the future, due to the final investigations and the determination of the actual environmental impact. See also Note 20 Environmental Liabilities.

As of December 31, 2016, the updated present value of the total remaining amount of Brazilian Environment Liabilities was estimated at R$ 55.7 million. Some of these areas have already been recovered and some areas are still being evaluated.

Gerdau Ameristeel and Macsteel estimate clean-up costs based on a review of the anticipated remedial activities to be undertaken at each of their respective known contaminated sites. Although the ultimate costs associated with such remedies are not precisely known, the Company has estimated the present value of the total remaining costs as of December 31, 2016 at approximately R$ 28.1 million, with these costs recorded as a liability in its financial statements.

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Brazilian Environmental Legislation

The Company s activities are subject to wide-sweeping Brazilian environmental legislation at the federal, state and municipal levels that govern, among other aspects, the dumping of effluents, atmospheric emissions and the handling and final disposal of dangerous waste, as well as the obligation to obtain operating licenses for the installation and operation of potentially polluting activities.

Brazilian environmental legislation provides for the imposition of criminal and administrative penalties on natural persons and legal entities that commit environmental crimes or infractions, as well as for the obligation to repair the environmental damage caused. Although the Company has never suffered any environmental penalties that could have a relevant impact on its business, potential environmental crimes or infractions could subject the Company to penalties that include:

- fines that at the administrative level could reach as high as R$ 50 million, depending on the violator s economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;

- suspension of or interference in the activities of the respective enterprise; and

- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

In addition, strict liability is applicable to environmental crimes for both natural persons and legal entities. Environmental legislation also provides for disregarding the legal status of a company s controlling shareholder whenever such status represents an impediment to receiving restitution for environmental damages.

In the civil sphere, environmental damage results in joint and several liability as well as strict liability. This means that the obligation to repair the environmental damage may affect all those directly or indirectly involved, regardless of any proof of who is to blame. As a result, the hiring of third parties to intervene in its operations to perform such services as final disposal of solid waste does not exempts the Company from liability for any environmental damage that may occur.

North American Environmental Legislation

The Company is required to comply with a complex and evolving body of Environmental, Health and Safety Laws (EHS Laws) concerning, among other things, air emissions, discharges to soil, surface water and groundwater, noise control, the generation, handling, storage,

transportation and disposal of toxic and hazardous substances and waste, the clean-up of contamination, indoor air quality and worker health and safety. These EHS Laws vary by location and can fall within federal, provincial, state or municipal jurisdictions.

Most EHS Laws are of general application but result in significant obligations in practice for the steel sector. For example, the Company is required to comply with a variety of EHS Laws that restrict emissions of air pollutants, such as lead, particulate matter and mercury. Because the Company s manufacturing facilities emit significant quantities of air emissions, compliance with these laws does require the Company to make investments in pollution control equipment and to report to the relevant government authority if any air emissions limits are exceeded. The government authorities typically monitor compliance with these limits and use a variety of tools to enforce them, including administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EHS Laws; and regulatory prosecutions, which can result in significant fines and (in rare cases) imprisonment. The Company is also required to comply with a similar regime with respect to its wastewater. EHS Laws restrict the type and amount of pollutants that Company facilities can discharge into receiving bodies of waters, such as rivers, lakes and oceans, and into municipal sanitary and storm sewers. Government authorities can enforce these restrictions using the same variety of tools noted above.

The Company has installed pollution control equipment at its manufacturing facilities to address these emissions and discharge limits, and has an environmental management system in place designed to reduce the risk of non-compliance.

Environmental Permits

According to Brazilian environmental legislation, the proper functioning of activities considered effectively or potentially polluting or that in some way could cause environmental damage requires environmental licenses. This procedure is necessary for both the activity s initial installation and operating phases as well as for its expansion phases, and these licenses must be renewed periodically.

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The Brazilian Institute for the Environment and Renewable Resources (IBAMA) has jurisdiction to issue licenses for projects with national or regional environmental impacts. In all other cases, the state environmental agencies have jurisdiction and, in the case of local impact, the municipal agencies have jurisdiction.

Environmental licensing of activities with significant environmental impacts is subject to a Prior Environmental Impact Study and respective Environmental Impact Report (EIA/RIMA), as well as the implementation of measures to mitigate and compensate for the environmental impact of the project.

The environmental licensing process includes the issuance of three licenses: Pre-License (LP), Installation License (LI) and Operational License (LO). These licenses are issued in accordance with each phase of project implementation, and maintaining their validity requires compliance with the requirements established by the environmental licensing agency. The failure to obtain an environmental license, regardless of whether or not the activity is actually harming the environment, is considered an environmental crime and an administrative infraction, subjecting the violator to administrative fines, at the federal level (subject to being doubled or tripled in the case of repeat violations), and the suspension of operations. The Operational License (LO) must be renewed periodically.

The Company s operations currently comply with all legal requirements related to environmental licenses. However, any delay or refusal on the part of environmental licensing agencies to issue or renew these licenses, as well as any difficulty on its part to meet the requirements established by these environmental agencies during the course of the environmental licensing process, could jeopardize or even impair the installation, operation and expansion of new and current projects.

Areas of permanent forest preservation and legal reserves

Some activities of the Company, mainly those involving reforestation to produce thermal-reducer used in its industrial units, are subject to the Brazilian Forest Code.

The Code determines that certain areas, because of their importance for preserving the environment and water resources, be considered permanent preservation areas (APP). These include areas adjacent to rivers or natural or artificial reservoirs, and hilltops and hillside properties with an incline steeper than 45°. At Gerdau s forest units, permanent preservation areas are an integral part of the business and are protected in compliance with the law.

Moreover, depending on the region where the property is located, the Code requires rural land owners to restore and preserve between 20%, 35% or 80% of areas containing native vegetation. The maintenance of these percentages of native vegetation is important because it guarantees the preservation of the local natural vegetation, perpetuating the genetic resources and the biodiversity of each Brazilian biome. Gerdau maintains its Legal Reserve areas preserved and in accordance with governing legislation.

ITEM 4A. UNRESOLVED SEC STAFF COMMENTS

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission with respect to its periodic reports under the Securities Exchange Act.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the Company s audited consolidated financial statements as of December 31, 2016, 2015 and 2014, included in this Annual Report that have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as well as with the information presented under Presentation of Financial and Other Information and Selected Financial and Other Information of Gerdau .

The following discussion contains forward-looking statements that are based on management s current expectations, estimates and projections and that involve risks and uncertainties. The Company s actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections Forward-Looking Statements and Risk Factors .

The primary factors affecting the Company s results of operations include:

- Economic and political conditions in the countries in which Gerdau operates, especially Brazil and the U.S.;

- The fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;

- The cyclical nature of supply and demand for steel products both inside and outside of Brazil, including the prices for steel products;

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- The Company s level of exports; and

- The Company s production costs.

Brazilian Economic Conditions

The Company s results and financial position depend largely on the situation of the Brazilian economy, notably economic growth and its impact on steel demand, financing costs, the availability of financing and the exchange rates between Brazilian and foreign currencies.

Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, the inflation-targeting system, the adoption of a floating foreign exchange rate, the increase in foreign investment and compliance with international financial agreements, including the full repayment of debt with the International Monetary Fund, contributed to the improved economic conditions in Brazil. The international crisis associated with the end of the commodities super cycle and the exhaustion of the domestic growth model leveraged by credit-driven consumption, resulted in the worst recession that Brazil has experienced in the last quarter of a century.

In 2014, Brazilian GDP grew by 0.1% (US$ 5.5 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 6.4%. The average CDI rate in the year was 11.5%. The Brazilian *real* depreciated by 13.4% against the U.S. dollar, ending the year at R$ 2.66 to US$1.00.

In 2015, Brazilian GDP decreased by 3.8% (US$ 1.8 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 10.7%. The average CDI rate in the year was 14.1%. The Brazilian *real* depreciated by 47.0% against the U.S. dollar, ending the year at R$ 3.90 to US$ 1.00.

In 2016, Brazilian GDP decreased by 3.6% (US$ 1.9 trillion Nomial GDP). Inflation, as measured by the IPCA index, stood at 6.3%. The average CDI rate in the year was 13.6%. The Brazilian real appreciated by 17.0% against the U.S. dollar, ending the year at R$3.26 to $1.00.

The recession appears to be nearing its end, but recovery is expected to be gradual. See the discussion below under Trend Information

Moreover, a significant portion of the Company s debt denominated in Brazilian *reais* is subject to interest at the CDI and TJLP rates, which are affected by many factors including inflation in Brazil. Another portion of the Company s debt, denominated in Brazilian *reais*, is indexed to general-inflation indexes, generally the IGP-M index. Therefore, higher inflation may result in increases in the Company s financial expenses and debt service obligations.

The interest rates that the Company pays depend on a variety of factors such as; movements on the interest rates, which can be driven by inflation; ratings given by the credit rating agencies that assess the Company; as well as the Company s debt securities that are traded in the secondary market, as bonds. The Company s debt obligations with floating interest rates, exposes the Company to market risks from changes in the CDI rate, IGP-M index and LIBOR. To reduce its exposure to interest rate risk, the Company seeks from time to time to enter into hedging arrangements to mitigate fluctuations in these rates, such as LIBOR.

The table below presents GDP growth, inflation, interest rates and the foreign exchange rate between the U.S. dollar and the Brazilian *real* for the periods shown.

	2016	2015	2014
Actual GDP growth	-3.6%	-3.8%	0.1%
Inflation (IGP-M) (1)	7.2%	10.5%	3.7%
Inflation (IPCA) (2)	6.3%	10.7%	6.4%
CDI rate (3)	13.6%	14.1%	11.5%
6-month LIBOR	1.3%	0.9%	0.4%
Depreciation (appreciation) in the Brazilian *real* against the U.S. dollar	(17.0)%	47.0%	13.4%
Foreign exchange rate at end of period $1.00	R$ 3.2591	R$ 3.9048	R$ 2.6562
Average foreign exchange rate $1.00 (4)	R$ 3.4833	R$ 3.3399	R$ 2.3547

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Sources: Getúlio Vargas Foundation, Central Bank of Brazil and Bloomberg

(1) Inflation as measured by the General Market Price index (IGP-M) published by the Getúlio Vargas Foundation (FGV).

(2) Inflation as measured by the Board Consumer Price Index (IPCA) measured by Brazilian Institute of Geography and Statistics (IBGE).

(3) The CDI rate is equivalent to the average fixed rate of interbank deposits recorded during the day in Brazil (annualized monthly cumulative figure at end of period).

(4) Average of the foreign exchange rates, according to the Brazilian Central Bank, on the last day of each month in the period indicated.

U.S. Economic Conditions

In view of the size of the Company s operations in the United States, U.S. economic conditions have a significant effect on the Company s results, particularly with regard to U.S. economic growth and the related effects on steel demand, financing costs and the availability of credit.

In the United States, Real GDP began to fall in the third quarter of 2008 (down 2.7% annualized) before falling at a 5.4% annual rate in the fourth quarter of 2008 as uncertainty and tight credit conditions led companies to preserve cash, leading to a drawdown in inventories throughout the supply chain. Inventory reduction continued on a much wider scale in the first quarter of 2009, accounting for about one-half of the 6.4% drop in annualized Real GDP. The second quarter of 2009 saw demand begin to stabilize, with Real GDP falling at a 0.7% pace as domestic demand and inventories bottomed out. Supported by the Cash for Clunkers program, which drove a sharp rise in auto sales, and first-time homebuyer incentives, which supported improved housing starts, Real GDP in the United States grew by 5.7% in the fourth quarter of 2009, as re-stocking of inventories outweighed the continued negative impact of rising unemployment on consumption. Throughout the last three years, the United States economy kept showing a gradual recovery, with an increase in the demand for steel products. The improvements in the automotive sector and de recovery in the non-residential construction sector were the drivers of the recovery in demand.

In 2014, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.4% (US$ 17.4 trillion Nominal GDP), with a trade deficit of US$ 538.1 billion. Inflation, as measured by the CPI, was 1.6%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.25%.

In 2015, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.6% (US$ 18.0 trillion Nominal GDP), with a trade deficit of US$ 539.8 billion. Inflation, as measured by the CPI, was 0.1%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.50%.

In 2016, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 1.6% (US$ 18.6 trillion Nominal GDP), with a trade deficit of US$ 499.5 billion. Inflation, as measured by the CPI, was 1.3%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.75%.

The table below presents actual U.S. Real GDP growth, inflation and interest rates for the periods indicated.

	2016	2015	2014
Actual Real GDP growth (1)	1.6%	2.6%	2.4%
Inflation (CPI) (2)	1.3%	0.1%	1.6%
Fed Funds (3)	0.75%	0.50%	0.25%

Sources: International Monetary Fund and Federal Reserve Statistical Release

(1) Real GDP growth (annual percent change) published by the International Monetary Fund (IMF).

(2) Consumer price index, average of consumer prices (annual percent change) published by the International Monetary Fund (IMF). The CPI is a survey of consumer prices for all urban consumers.

(3) Fed Funds corresponds to the interest rate set by the U.S. Federal Reserve.

Impact of Inflation and Fluctuations in Exchange Rates

Gerdau s results and its financial position are largely dependent on the state of the Brazilian economy, notably (i) economic growth and its impact on steel demand, (ii) financing costs and the availability of financing, and (iii) the rates of exchange between the Brazilian *real* and foreign currencies.

For many years, Brazil experienced high inflation rates that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Brazil is facing its worst recession in the last quarter of century, with the end of the commodities super cycle and the exhaustion of the domestic growth model leveraged by credit-driven consumption. Despite the recession, inflation remained at a high level until mid-2016. In the last few months of 2016, inflation

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fell sharply and Brazil Central Bank started a long and intense cycle of interest rate reduction, without jeopardizing the goal of attaining the target of 4.5% for IPCA.

A portion of Gerdau s trade accounts receivable, trade accounts payable and debt is denominated in currencies other than the respective functional currencies of each subsidiary. The functional currency of the Brazilian operating subsidiaries is the Brazilian *real*. Brazilian subsidiaries have some of their assets and liabilities denominated in foreign currencies, mainly the U.S. dollar.

The foreign exchange effect on translation of foreign subsidiaries is recorded directly in shareholders equity. Foreign exchange gains and losses on transactions, including the exchange gains and losses on some non-*real* denominated debt of the subsidiaries in Brazil are recognized in the statement of income. However, gains and losses from debts contracted for acquisition of overseas investments are designated as a hedge of investment in foreign subsidiaries, and are also recorded directly in shareholders equity. The operations of Gerdau in Brazil have both liabilities and assets denominated in foreign currency, with the amount of assets exceeding the amount of liabilities. The effect of the valuation of the Brazilian *real* versus other currencies (mainly the U.S. dollar) has a net positive effect in our shareholders equity.

The cyclical nature of supply and demand for steel products including the prices of steel products

The prices of steel products are generally sensitive to changes in world and local demand, which in turn are affected by economic conditions in the world and in the specific country. The prices of steel products are also linked to available installed capacity. Most of the Company s long rolled steel products, including rebars, merchant bars and common wire rods, are classified as commodities. However, a significant portion of the Company s long rolled products, such as special steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, with all of these factors affecting prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, annual world crude steel production volume has varied from between 1,235 million tonnes and 1,670 million tonnes. According to the worldsteel, world crude steel production in 2016 was 1,629 million tonnes, 0.8% higher than in 2015. China s crude steel production in 2016 reached 808.4 million tonnes, an increase of 1.2% over 2015. In 2016, China s share of world steel production was 49.6% of total crude steel. According to worldsteel, world demand for finished steel products increased by 0.7% in 2014, decreased by 3.0% in 2015 and the forecast for 2016 is an increase of 0.2%. For 2017, the forecast calls for growth of 0.5%, since the current scenario is a stabilization of the Chinese economy and recoveries in developed economies continue to advance.

International steel prices have declined around 23.5% over the last five years (2012-2016), this is due mainly to excess installed capacity in the world. International steel prices have experienced ups and downs throughout the period from the fourth quarter of 2007 and through the fourth quarter of 2009, when the average price per tonne of CIS export billet at Black Sea/Baltic Sea was an average of $512 in the fourth quarter of 2007, skyrocketing to $1.205 in June 2008, slumping to $295 in March 2009 and reaching $415 at the end of 2009. This swing in the steel price was mainly caused by the turmoil in the world economy and the surplus supply of steel products in a scenario of lower demand. In December 2016, the price has increased 62.2% when to December of 2015, going from $ 245 to $ 398, due to the increase of raw materials prices.

The average price per tonne of the CIS export billet at the Black Sea/Baltic Sea is used as a reference for the international price, and it is possible to see its evolution in the chart below:

Average Price of CIS Export Billet at Black Sea/Baltic Sea ($ per Tonne)

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Sources: Metal Bulletin and Steel Business Briefing

Export levels - during periods of lower domestic demand for the Company s products, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of higher domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand. Gerdau exports products from Brazil to customers in other continents with whom we have long-established commercial relations. In 2016, exports were 8.6% higher than 2015 from to 2,173 million tonnes in 2015 to 2,360 in 2016, which represented 38.9% of all shipments by the Company s Brazilian units, in 2015 exports represented 33.7% of total shipments from Brazil operations. This increase was due to the opportunities in the international market. Export revenue totaled R$ 3,066 million in 2016 (R$ 3,175 million in 2015).

Production costs - raw materials account for the highest percentage of the Company s production costs. Metallic inputs, which includes scrap, pig iron, iron ore, coke and metallic alloys, represented approximately 41.3% of production costs in 2016, while Energy and Reducing Agents, which represents the cost of coal, electricity, oxygen, natural gas and fuel oil, accounted for 14.3%. Personnel totaled 21.6% of production costs and Specific Materials, which includes refractories, electrodes, rolling cylinders, rollers, guides, carburants and lime, were 9.7% of total production costs. The table below presents the production costs breakdown by business division (BD):

Production Costs Breakdown in 2016 (%)

% of costs	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Consolidated		Brazil BD		North America BD		South America BD		Special Steel BD	
Personnel	21.6	20.3	21.9	22.2	22.2	20.4	13.8	13.6	24.3	21.0
Maintenance	7.1	6.9	6.7	6.8	8.3	7.6	4.6	4.5	6.3	6.7
Depreciation	6.0	5.7	8.2	7.9	4.8	4.2	4.0	3.7	6.6	6.6
Metallic Inputs	41.3	44.3	26.9	30.2	46.9	50.0	59.8	62.2	39.3	41.9
Energy and Reducing Agents	14.3	13.4	27.1	24.4	7.5	7.8	11.2	10.0	12.4	12.6
Specific Materials	9.7	9.4	9.2	8.5	10.3	10.0	6.6	6.0	11.1	11.2

Significant events affecting financial performance during 2016

Exchange rate In accordance with IFRS, the Company has designated a portion of its debt denominated in foreign currency and contracted by companies in Brazil as a hedge for a portion of the net investments in foreign subsidiaries. As a result, the effects from exchange variation gains or losses on the portion of debt designated for hedge accounting are also recognized in shareholders equity. The subsidiaries that issued the debt are not subject to income taxes and as such there is no income tax effect on the exchange gains and losses on the debt. However the subsidiaries have loaned the proceeds to other entities in Brazil with terms identical to those of the Ten Year Bonds. The payable by the subsidiaries in Brazil to the foreign subsidiaries denominated in US dollars generates exchange gains (losses) that are

taxable and results in income tax recognized in the income statement, while these exchange variances are eliminated in consolidation with the offsetting exchange gains (losses) recognized by the foreign subsidiaries.

Starting from April 1, 2012, with the objective of eliminating the tax effect from the exchange variance of these debts, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located outside Brazil. As a result, the exchange variation on the amount of US$ 2.5 billion (US$ 2.3 billion related to the Ten/Thirty Years Bonds and US$ 0.2 billion related to other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US$ 1.0 billion is now recognized in income.

Impairment of assets In the fourth quarter of 2016, the Company concluded the impairment test of goodwill and other long-lived assets in its segments . This analysis identified goodwill impairment amounting R$ 2,678.6 million for the North America business division. The other segments did not present losses from asset impairments on goodwill in the tests conducted in 2016. Furthermore, in the fourth quarter of 2016, the Company identified the impairment of fixed assets in the amount of R$ 239.3 million, of which R$ 138.8 million was attributable to the South America business division and R$ 100.6 million was attributable to the North America business division, resulting from a recoverable amount below the carrying value.

Results of Operations

The following presentation of the Company s operating results for the years ended December 31, 2016, 2015 and 2014 is based on the Company s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) included in this Annual Report. References to increases or decreases in any year or period are made in relation to the corresponding prior year or period, except where stated otherwise.

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The table below presents information for various income statements items and are expressed in both reais and as a percentage of net sales for each of the respective years:

	For the year ended December 31,							
	2016		2015		2014		Variation	Variation
	R$ million	% net sales	R$ million	% net sales	R$ million	% net sales	2016/ 2015	2015/ 2014
Net sales	37,652	100.0%	43,581	100.0%	42,546	100.0%	(13.6)%	2.4%
Cost of Sales	(34,188)	(90.8)%	(39,290)	(90.2)%	(37,406)	(87.9)%	(13.0)%	5.0%
Gross profit	3,464	9.2%	4,291	9.8%	5,140	(12.1)%	(19.3)%	(16.5)%
Operating expenses:								
Selling expenses	(711)	(1.9)%	(785)	(1.8)%	(691)	(1.6)%	(9.4)%	13.6%
General and administrative expenses	(1,528)	(4.1)%	(1,797)	(4.1)%	(2,037)	(4.8)%	(15.0)%	(11.8)%
Other operating income	242	0.6%	213	0.5%	238	0.6%	13.6%	(10.5)%
Other operating expenses	(114)	(0.3)%	(116)	(0.3)%	(151)	(0.4)%	(1.7)%	(23.2)%
Impairment of assets	(2,918)	(7.7)%	(4,996)	(11.5)%	(339)	(0.8)%	(41.6)%	1,373.7%
Results in operations with subsidiaries, associate and jointly controlled entity	(58)	(0.2)%			637	1.5%		
Equity in earnings of unconsolidated companies	(13)	0.0%	(25)	(0.1)%	102	0.2%	(48.0)%	(124.1)%
Net (loss) Income Before Financial Income (Expenses) and Taxes	(1,636)	(4.3)%	(3,216)	(7.4)%	2,899	6.8%	(49.1)%	(210.9)%
Financial income	252	0.7%	378	0.9%	276	0.6%	(33.3)%	37.0%
Financial expenses	(2,010)	(5.3)%	(1,780)	(4.1)%	(1,397)	(3.3)%	12.9%	27.4%
Exchange variations, net	852	2.3%	(1,564)	(3.6)%	(476)	(1.1)%	(154.5)%	228.6%
Gains and losses on financial instruments, net	(39)	(0.1)%	87	0.2%	36	0.1%	(144.8)%	141.7%
Income and social contribution taxes	(304)	(0.8)%	1,498	3.4%	150	0.4%	(120.3)%	898.7%
Net income (Loss)	(2.886)	(7.7)%	(4.596)	(10.5)%	1,488	3.5%	(37.2)%	(408.8)%

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Net Sales

Net Sales by Business Divisions(*) (R$ million)	Year ended December 31, 2016	Year ended December 31, 2015	Variation Year ended December 31, 2016/ Year ended December 31, 2015
Brazil	11,635	12,977	(10.3)%
North America	15,431	17,312	(10.9)%
South America	4,776	5,477	(12.8)%
Special Steel	6,885	8,882	(22.5)%

Intercompany Eliminations	(1,075)	(1,067)	
Total	**37,652**	**43,581**	**(13.6)%**

(*) The information does not include data from the associate and jointly-controlled entities.

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Net Sales per tonne by Business Divisions(*) (R$/tonne)	Year ended December 31, 2016	Year ended December 31, 2015	Variation Year ended December 31, 2016/ Year ended December 31, 2015
Brazil	1,918	2,010	(4.6)%
North America	2,587	2,778	(6.9)%
South America	2,287	2,465	(7.2)%
Special Steel	3,276	3,389	(3.3)%
Consolidated(1)	**2,420**	**2,568**	**(5.8)%**

(*) The information does not include data from the associate and jointly-controlled entities.

(1) The information does not include iron ore volumes.

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In 2016, consolidated net sales decreased 13.6% compared to 2015, due to the decline in shipments in all Business Divisions and a decrease of net sales per tonne mainly in the North America Business Division (-6.9%).

In the Brazil Business Division, the 10.3% decline in net sales in 2016 compared to 2015 was mainly due to a less favorable market mix, with lower shipments in the domestic market (from 4,284 thousand tonnes in 2015 to 3,707 thousand tonnes in 2016), which was partially offset by higher shipments to the export market (from 2,173 thousand tonnes in 2015 to 2,360 thousand tonnes in 2016). In addition, there was a decrease in net sales per tonne exported (-11.1%). In the domestic market, the reduction in shipments was due to a lower level of activity in the construction and industrial sectors as a result of the economic recession in Brazil. The Brazilian GDP decreased 3.6% in 2016. On the other hand, exports increased due to opportunities in the international market.

In the North America Business Division, net sales in 2016 decreased 10.9% compared to 2015 due to the reduction in net sales per tonne (-6.9%) and lower shipments (-4.3%) in the period, reflecting the constant pressure from imported in the region, even with the continued solid demand from the non-residential construction sector.

In the South America Business Division, net sales in 2016 decreased 12.8% compared to 2015, due to contraction in shipments, from 2,222 thousand tonnes in 2015 to 2,088 thousand tonnes in 2016 and the effect from exchange variation of the countries where Gerdau has operations.

In the Special Steel Business Division, net sales decreased 22.5% in 2016 compared to 2015, mainly due to the divestitures of the units in Spain and lower shipments in Brazil resulting in a reduction of 19.8% in consolidated shipments of this Business Division (from 2,621 thousand tonnes in 2015 to 2,102 thousand tonnes in 2016).

Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)		**Year ended December 31, 2016**	**2015**	**Variation Year ended December 31, 2016/ Year ended December 31, 2015**
Brazil	Net sales (R$million)	11,635	12,977	(10.3)%
	Cost of Sales (R$million)	(10,405)	(11,433)	(9.0)%
	Gross Profit (R$million)	1,230	1,544	(20.3)%
	Gross margin (%)	*10.6%*	*11.9%*	
North America	Net sales (R$million)	15,431	17,312	(10.9)%
	Cost of Sales (R$million)	(14,515)	(15,800)	(8.1)%
	Gross Profit (R$million)	916	1,512	(39.4)%
	Gross margin (%)	*5.9%*	*8.7%*	
South America	Net sales (R$million)	4,776	5,477	(12.8)%
	Cost of Sales (R$million)	(4,103)	(4,800)	(14.5)%
	Gross Profit (R$million)	672	677	(0.6)%
	Gross margin (%)	*14.1%*	*12.4%*	
Special Steel	Net sales (R$million)	6,885	8,882	(22.5)%

	Cost of Sales (R$million)	(6,239)	(8,333)	(25.1)%
	Gross Profit (R$million)	646	549	17.7%
	Gross margin (%)	*9.4%*	*6.2%*	
Intercompany Eliminations	Net sales (R$million)	(1,075)	(1,067)	
	Cost of Sales (R$million)	1,074	1,076	
	Gross Profit (R$million)	(1)	9	
Total	**Net sales (R$million)**	**37,652**	**43,581**	**(13.6)%**
	Cost of Sales (R$million)	**(34,188)**	**(39,290)**	**(13.0)%**
	Gross Profit (R$million)	**3,464**	**4,291**	**(19.3)%**
	Gross margin (%)	***9.2%***	***9.8%***	

(*) The information does not include data from the associate and jointly-controlled entities.

In 2016, cost of sales decreased 13.0% from 2015, mainly due to sales volume reduction of 8.3%, as well as lower raw materials cost. Gross margin decreased slightly from 9.8% in 2015 to 9.2% in 2016, due to poor performance of North America and Brazil Business Divisions, partially compensated by Special Steel Business Division.

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In the Brazil Business Division, cost of sales decreased 9.0% in 2016 compared to 2015, mainly due to lower shipments (-6.0%). The larger reduction in net sales (-10.3%) compared to the cost of sales (-9.0%), resulted in a reduction of gross margin, from 11.9% in 2015 to 10.6% in 2016.

In the North America Business Division, cost of sales in 2016 decreased 8.1% compared to 2015 due to shipments reduction (-4.3%) and lower scrap price in the comparison period. The larger reduction in net sales (-10.9%) than the decrease in cost of sales (-8.1%), resulted in a reduction of gross margin, from 8.7% in 2015 to 5.9% in 2016.

In the South America Business Division, cost of sales decreased 14.5% in 2016 compared to 2015, due to the shipments reduction (-6.0%), lower raw materials cost, as well as the exchange rate effect. Gross margin improved, going from 12.4% in 2015 to 14.1% in 2016, due to stronger reduction in cost of sales (-14.5%) compared to net sales (-12.8%).

In the Special Steel Business Division, the 25.1% decrease in cost of sales was due to the sale of the Spain units and lower shipments in the Brazilian units. The Spain units historically had the lowest profitability of this Business Division, as a result, gross margin improved from 6.2% in 2015 to 9.4% in 2016. In addition, the performance in the United States and India improved.

Selling, General and Administrative Expenses

Operating Expenses(*) (R$ million)	**2016**	**2015**	**Variation Year ended December 31, 2016/ Year ended December 31, 2015**
Selling expenses	711	785	-9.4%
General and administrative expenses	1,528	1,797	-15.0%
Total	2,239	2,582	-13.3%
Net sales	37,652	43,581	-13.6%
% of net sales	**5.9%**	**5.9%**	

(*) The information does not include data from the associate and jointly-controlled entities.

The 9.5% reduction in consolidated selling expenses was due to lower shipments in 2016 (-8.3%). Consolidated general and administrative expenses decreased 15.0% from 2015 to 2016, which demonstrates the Company s efforts to streamline these expenses, despite the depreciation of 4.3% of the exchange variation on operations abroad. In 2016, selling, general and administrative expenses as a ratio of net sales was 5.9%, which was stable as compared to 2015.

Impairment of assets

In 2016, the line losses from asset impairments amounted to R$ 2,917.9 million, which is related to the impairment of goodwill and the expectation that certain assets of the Company would not be utilized, as identified by impairment testing. In the fourth quarter of 2016, the Company assessed the impairment of goodwill of its segments. Tests identified losses from goodwill impairment of R$ 2,678.6 in the North America Business Division. The other segments did not present losses from asset impairments on goodwill in the tests conducted in 2016. Furthermore, in the fourth quarter of 2016, the tests conducted of other long-lived assets identified losses from the impairment of fixed assets of R$ 239.3 million, of which R$ 138.8 million was attributable to the South America Business Division and R$100.6 million was attributable to the North America Business Division, due to recoverable amounts below the the carrying amount.

Operating Income (Loss) before Financial Result and Taxes

Operating Income (Loss) before Financial Result and Taxes went from a loss of R$ 3,215.5 million in the fiscal year ended December 31, 2015 to a loss of R$ 1,636.4 million in 2016. This variation was mainly due to lower losses from asset impairments in 2016 and to the decline in selling, general and administrative expenses, despite the contraction in gross profit in comparison to 2015.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses on financial instruments, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R$ million)	**2016**	**2015**	**Variation Year ended December 31, 2016/ Year ended December 31, 2015**
Financial income	252	378	-33.3%
Financial expenses	(2,010)	(1,780)	12.9%
Exchange variation, net	852	(1,564)	-154.5%
Gains and Losses on financial instruments, net	(39)	87	-144,8%
Total	**(945)**	**(2,879)**	**-67.2%**

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(*) The information does not include data from the associate and jointly-controlled entities.

The net financial result went from a negative result of R$2,878.9 million in 2015 to a negative result of R$945.3 million in 2016. The lower negative financial result mainly reflects the higher positive exchange variation on liabilities contracted in U.S. dollars (appreciation of the Brazilian real against the U.S. dollar of 16.5% in 2016, compared to depreciation of 47.0% in 2015), despite the higher financial expenses.

In accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located abroad. As a result, the exchange variation on the amount of US$2.7 billion (US$2.5 billion related to the 10/30 Year Bonds and US$0.2 billion related to other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US$1.0 billion was recognized in financial result and was neutralized by the line Income Tax.

Income and Social Contribution Taxes

Income and social contribution taxes was negative R$ 304.3 million in 2016, compared to positive R$ 1,498.4 million in 2015. This variation was due to the deferred income tax and social contribution on positive net investment hedge in 2015 and on negative net investment hedge in 2016.

Net Income (loss)

Consolidated net loss went from R$ 4,596.0 million in 2015 to R$ 2,885.9 million in 2016. This variation was mainly due to lower losses from asset impairments in 2016 and to the decline in selling, general and administrative expenses, despite the contraction in gross profit as compared to 2015.

In the Brazil Business Division, the net loss was R$ 37 million in 2016, compared to a net loss of R$ 672 million in 2015. This variation was mainly due to losses from asset impairment of R$ 835 million in 2015.

The North America Business Division posted a net loss of R$ 2,592 million in 2016, compared to a net loss of R$ 1,468 million in 2015. This variation was mainly due to the losses from asset impairment of R$ 2,779 million recorded in 2016 being greater than the amount of R$ 1,882 million recorded in 2015. Gross profit also decreased, from R$ 1,512 million in 2015 to R$ 916 million in 2016.

In 2016, the South America Business Division posted net income of R$ 134 million, compared to a net loss of R$ 154 million in 2015. This variation was mainly due to the losses from asset impairment of R$ 139 million registered in 2016 being lesser than the amount of R$ 354

million registered in 2015.

In 2016, the Special Steel Business Division posted net income of R$ 163 million, compared to a net loss of R$ 2,297 million in 2015. This variation was mainly due to losses from asset impairment of R$ 1,925 million in 2015.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Net Sales

Net Sales by Business Divisions(*) (R$ million)	Year ended December 31, 2015	Year ended December 31, 2014	Variation Year ended December 31, 2015/ Year ended December 31, 2014
Brazil	12,977	14,813	-12.4%
North America	17,312	14,640	18.3%
South America	5,477	5,078	7.9%
Special Steel	8,882	8,644	2.8%
Intercompany Eliminations	(1,067)	(629)	
Total	**43,581**	**42,546**	**2.4%**

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(*) The information does not include data from the associate and jointly-controlled entities.

Net Sales per tonne by Business Divisions(*) (R$/tonne)	Year ended December 31, 2015	Year ended December 31, 2014	Variation Year ended December 31, 2015/ Year ended December 31, 2014
Brazil	2,010	2,250	-10.7%
North America	2,778	2,252	23.4%
South America	2,465	2,229	10.6%
Special Steel	3,389	2,987	13.5%
Consolidated(1)	**2,568**	**2,381**	**7.9%**

(*) The information does not include data from the associate and jointly-controlled entities.

(1) The information does not include iron ore volumes.

In 2015, consolidated net sales increased 2.4% in relation to 2014, mainly due to the impact of exchange variation on the translation of net sales from foreign companies into Brazilian real mainly related to the U.S. dollar (41.8% average depreciation of the Brazilian real against the U.S. dollar in 2015). Excluding the effects from exchange variation, net sales decreased in the period, mainly due to the decline in shipments (-5.0%).

In the Brazil Business Division, the 12.4% decline in net sales in 2015 compared to 2014 was mainly due to a less favorable market mix, with lower shipments in the domestic market (from 5,540 thousand tonnes in 2014 to 4,284 thousand tonnes in 2015), which was partially offset by higher shipments to the export market (from 1,043 thousand tonnes in 2014 to 2,173 thousand tonnes in 2015). In addition, the decline in international prices (-38.2% according Metal Bulletin and Steel Business Briefing) led to a decrease in net sales per tonne exported (-22.9%), despite the positive effects from exchange variation. In the domestic market, the reduction in shipments was due to the lower level of activity in the construction and industrial sectors, reflecting the contraction of 3.8% in Brazilian GDP growth in 2015.

In the North America Business Division, net sales in 2015 increased 18.3% in relation to 2014 due to exchange variation (41.8% average depreciation in the Brazilian real against the U.S. dollar in 2015), which was offset by the decrease in net sales per tonne sold in U.S. dollar (-11.3%) and lower shipments (-4.1%), reflecting the constant pressure from imported products the region, even with the continued solid demand from the non-residential construction sector.

In the South America Business Division, net sales in 2015 increased 7.9% in relation to 2014, due to the effect from exchange variation caused by the depreciation in the Brazilian real against the currencies of the countries where Gerdau has operations, despite the 2.4% contraction in shipments, from 2,277 thousand tonnes in 2014 to 2,222 thousand tonnes in 2015.

In the Special Steel Business Division, net sales increased 2.8% in 2015 compared to 2014, mainly due to the impact from exchange variation (41.8% average depreciation in the Brazilian real against the U.S. dollar in 2015) on sales at overseas units. Excluding this effect, net sales decreased 14.0%, mainly due to the reduction of 9.4% in shipments (from 2,894 thousand tonnes in 2014 to 2,621 thousand tonnes in 2015) resulting from the sharp drop in demand from the Brazilian automotive industry and, to a lesser extent, from the U.S. oil and gas sector.

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Cost of Sales and Gross Profit

Net sales, Cost of Sales and Gross Profit(*)		Year ended December 31, 2015	2014	Variation Year ended December 31, 2015/ Year ended December 31, 2014
Brazil	Net sales (R$million)	12,977	14,813	(12.4)%
	Cost of Sales (R$million)	(11,433)	(12,003)	(4.7)%
	Gross Profit (R$million)	1,544	2,810	(45.1)%
	Gross margin (%)	*11.9%*	*19.0%*	
North America	Net sales (R$million)	17,312	14,640	18.3%
	Cost of Sales (R$million)	(15,800)	(13,693)	15.4%
	Gross Profit (R$million)	1,512	947	59.7%
	Gross margin (%)	*8.7%*	*6.5%*	
South America	Net sales (R$million)	5,477	5,078	7.9%
	Cost of Sales (R$million)	(4,800)	(4,423)	8.5%
	Gross Profit (R$million)	677	656	3.4%
	Gross margin (%)	*12.4%*	*12.9%*	
Special Steel	Net sales (R$million)	8,882	8,644	2.8%
	Cost of Sales (R$million)	(8,333)	(7,922)	5.2%
	Gross Profit (R$million)	549	722	(24.0)%
	Gross margin (%)	*6.2%*	*8.4%*	
Intercompany Eliminations	Net sales (R$million)	(1,067)	(629)	
	Cost of Sales (R$million)	1,076	635	
	Gross Profit (R$million)	9	6	
Total	**Net sales (R$million)**	**43,581**	**42,546**	**2.4%**
	Cost of Sales (R$million)	**(39,290)**	**(37,406)**	**5.0%**
	Gross Profit (R$million)	**4,291**	**5,140**	**(16.5)%**
	Gross margin (%)	***9.8%***	***12.1%***	

(*) The information does not include data from the associate and jointly-controlled entities.

In 2015, cost of sales increased 5.0% from 2014, mainly due to the effect from exchange variation on the translation to Brazilian real of cost of sales at overseas companies, even though sales volume has reduced of 5.0%. Excluding the effects from exchange variation, cost of sales in the period would have declined 7.0%. Gross margin decreased from 12.1% in 2014 to 9.8% in 2015, due to lower shipments in Brazil s domestic market, which historically has higher margins in both, the Brazil Business Division and the Special Steel Business Division, despite the improvement in gross profit and gross margin at the North America Business Division.

In the Brazil Business Division, cost of sales decreased 4.7% in 2015 compared to 2014, due to lower shipments (-1.9%), even with the costs associate with production shutdowns in the amount of R$229.8 million in 2015. The reduction in gross margin, from 19.0% in 2014 to 11.9% in 2015, is mainly explained by net sales falling faster (-12.4%) than shipments (-4.7%), due to the less favorable sales mix, i.e., lower sales in the domestic market and higher exports, which registered a reduction in net sales per tonne.

In the North America Business Division, cost of sales in 2015 increased 15.4% in relation to 2014 due to the effect from exchange variation, though at a slower rate than the increase in net sales given the cost-cutting efforts in this business division, and to the lower scrap prices in the comparison period (-32.8% in accordance with the Scrap / Shredded FOB US East Coast prices published in the *Steel Business Briefing*). The increase in net sales at a faster pace than the increase in cost of sales supported gross margin expansion, from 6.5% in 2014 to 8.7% in 2015.

In the South America Business Division, cost of sales increased 8.5% in 2015 compared to 2014, due to the effect from exchange variation caused by the depreciation in the Brazilian real against the currencies of the countries where Gerdau has operations, despite the lower shipments (-2.4%). Gross margin remained relatively stable, going from 12.9% in 2014 to 12.4% in 2015, with similar variations in net sales and cost of sales.

In the Special Steel Business Division, the 5.2% increase in cost of sales was due to the effect from exchange variation (average depreciation in the Brazilian real against the currencies of countries where Gerdau has operations) on costs at the overseas units and to the costs associate with production shutdowns at the units in Brazil due to the lower capacity utilization rates in the comparison period (from 71% in 2014 to 54% in 2015). These effects led cost of sales to increase at a faster pace than net revenue, due to the decline in gross margin, from 8.4% in 2014 to 6.2% in 2015.

Selling, General and Administrative Expenses

Operating Expenses(*) (R$ million)	**2015**	**2014**	**Variation Year ended December 31, 2015/ Year ended December 31, 2014**
Selling expenses	785	691	13.6%
General and administrative expenses	1,797	2,037	-11.8%
Total	2,582	2,728	-5.4%
Net sales	43,581	42,546	2.4%
% of net sales	**5.9%**	**6.4%**	

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(*) The information does not include data from the associate and jointly-controlled entities.

The 13.6% increase in consolidated selling expenses was due to the higher allowance for doubtful accounts in 2015 as a result of higher delinquency rates in Brazil and to the effects from exchange variation on the Company s overseas operations, which were partially offset by the efforts to reduce these expenses. Consolidated general and administrative expenses decreased 11.8% from 2014 to 2015, despite the effects from the exchange variation on overseas operations, which demonstrates the Company s efforts to streamline these expenses. As a result, selling, general and administrative expenses declined as a ratio of net sales, from 6.4% in 2014 to 5.9% in 2015.

Impairment of assets

In 2015, the line impairment of assets recorded the amount of R$4,996.2 million, which is related to the expectation that certain assets of the Company would not be utilized, as identified through impairment testing. In the third quarter of 2015, the Company concluded the impairment test of goodwill and other long-lived assets, which identified impairment of assets amounting to R$1,867.6 million, of which R$1,161.7 million was due to the impairment test of other long-lived assets at the North America and Special Steel business divisions and R$705.9 million was due to the impairment test of goodwill at the North America and South America business divisions. During the fourth quarter of 2015, due to the expectation that assets in the Brazil Business Division would not be utilized, the Company identified the impairment of other long-lived assets in the amount of R$834.7 million. Also in the fourth quarter of 2015 due to deteriorating economic conditions, the Company again performed the goodwill impairment test, which was identified goodwill impairment losses in the amount of R$ 1,169.0 million for the North America segment and R$ 1,125.0 million for the Special Steel segment.

Results in operations with subsidiaries, associate and jointly controlled entity

The variation in Income (loss) in operations with jointly controlled entities in 2014 is explained by the divestment of the 50% interest in Gallatin Steel Company, on October 8, 2014. With this divestment, the Company ceased to recognize Equity in earnings from Gallatin Steel Company as from 4Q14.

Income (loss) before Financial Income (Expenses) and Taxes

Income (loss) before Financial Income (Expenses) and Taxes went from income of R$ 2,899 million in the fiscal year ended December 31, 2014 to a loss of R$ 3,216 million in 2015. The decline was mainly due to the impairment of assets in 2015, and to the lower gross profit in the comparison period.

Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses on financial instruments, net

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R$ million)	2015	2014	Variation Year ended December 31, 2015/ Year ended December 31, 2014
Financial income	378	276	37.0%
Financial expenses	(1,780)	(1,397)	27.4%
Exchange variation, net	(1,564)	(476)	228.6%
Gains and Losses on financial instruments, net	87	36	141,7%
Total	**(2,879)**	**(1,561)**	**84.4%**

(*) The information does not include data from associate and jointly-controlled entities.

In 2015, as compared to 2014, the increase in the negative financial result mainly reflects higher negative exchange variation on liabilities contracted in U.S. dollar (depreciation in the end-of-period price of the Brazilian real against the U.S. dollar of 47.0% in 2015 and 13.4% in 2014) and higher financial expenses, which was also affected by exchange variation, since 78.3% of the Company s gross debt is in U.S. dollar.

Note that, in accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in overseas subsidiaries. As a result, the exchange variation on US$ 2.9 billion (US$ 2.7 billion related to the Ten/Thirty Years Bonds plus US$ 0.2 billion related to other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US$ 1.0 billion was recognized in the income statement.

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Income and Social Contribution Taxes

Income and social contribution taxes was positive R$ 1,498 million in 2015, compared to positive R$ 150 million in 2014. This variation was due to higher income and social contribution taxes on the net investment hedge.

Net Income (loss)

Consolidated net income (loss) went from income of R$ 1,488 million in 2014 to a loss of R$ 4,596 million in 2015. The reduction was mainly due to the impairment of assets, lower operating income and higher financial expenses, which were affected by exchange variation.

The Brazil Business Division recorded a net loss of R$ 672 million in 2015, compared to net income of R$ 1,014 in 2014, due to the lower operating income and impairment of assets in the amount of R$ 835 million in 2015.

The North America Business Division recorded a net loss of R$ 1,471 million in 2015, compared to net income of R$ 614 million in 2014, mainly due to the impairment of assets in the amount of R$ 1,882 million in 2015.

In 2015, the South America Business Division posted a net loss of R$ 151 million, compared to a net loss of R$ 85 million in 2014. The decline is mainly due to the increase in taxable income at certain units with the resulting recognition of an income tax expense in fiscal year 2015.

In 2015, the Special Steel Business Division recorded a net loss of R$ 2,297 million compared to net income of R$ 123 million in 2014. This variation was mainly due to the impairment of assets in the amount of R$ 1,925 million in 2015, and to the increase in income tax payable, which refers to the write-off of deferred tax assets in the amount of R$ 284 million.

Critical Accounting Policies

Critical accounting policies are those that are (a) important to present the financial position and results of operations or (b) require Management s most difficult, subjective or complex judgments, often as a result of the need to make estimates that impact matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In the preparation of the Consolidated Financial Statements, the Company has relied on variables and assumptions derived from historical experience and various other factors that it deems reasonable and relevant. Although these estimates and assumptions are reviewed by the Company in the normal course of business, the presentation of its financial position and results of operations often requires making judgments regarding the effects of inherently uncertain matters on the carrying value of its assets and liabilities. Actual results may differ from estimates based on different variables, assumptions or conditions. In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, comments have been included that relate to

each critical accounting policy described below:

- deferred income and social contribution tax;
- pension and post-employment benefits;
- provisions;
- business combination, including valuation of assets acquired and liabilities, and
- impairment test of assets with definite and indefinite useful life.

a) Deferred Income and Social Contribution Tax

The liability method of accounting (according to the concept described in IAS 12) for income taxes is used for deferred income and social contribution taxes arising from temporary differences between the book value of assets and liabilities and their tax bases. The amount of the deferred income and social contribution tax asset is revised at each Consolidated Financial Statement date and reduced by the amount that is no longer probable of being realized based on future taxable income. Deferred income and social contribution tax assets and liabilities are calculated using tax rates applicable to taxable income in the years in which those temporary differences are expected to be realized. Future taxable income may be higher or lower than estimates made when determining whether it is necessary to record a tax asset and the amount to be recorded.

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company s Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future

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years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

b) Pension and Post-Employment Benefits

Actuarial gains and losses are recorded in the period in which they are originated and are recorded in the statement of comprehensive income.

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit of credit method and management s best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.

ii) Pension plan assets are stated at fair value.

iii) Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based on actuarial evaluation done by independent actuaries.

In accounting for pension and post-retirement benefits, several statistical and other factors that attempt to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, return on plan assets, future increases in health care costs, and rate of future compensation increases. In addition, actuarial computations include other factors whose measurement involves judgment such as withdrawal, turnover, and mortality rates. The actuarial assumptions used by the Company may differ materially from actual results in future periods due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

c) Provisions

The Company recognizes provisions for liabilities and probable losses that have been incurred when it has a present obligation as a result of past events, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation

can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

The Company records provisions for environmental liabilities based on best estimates of potential clean-up and remediation costs for known environmental sites. The Company has a team of professionals to manage all phases of its environmental programs. These professionals develop estimates of liabilities at these sites based on projected and known remediation costs. This analysis requires the Company to make significant estimates and changes in facts and circumstances which may result in material changes to environmental provisions.

The steel industry uses and generates substances that may damage the environment. The Company s management performs frequent surveys with the purpose of identifying potentially impacted areas and records as current liabilities and in non-current liabilities in the account Environmental liabilities , based on best cost estimate, the amounts estimated for investigation, treatment and cleaning of potentially affected sites. The Company used assumptions and estimates for determining the estimated amount, which may vary in the future depending on the final investigations and determination of the actual environmental impact.

The Company is compliant with all the applicable environmental regulations in the countries where they operate.

d) Business Combination, Valuation of Assets Acquired and Liabilities Assumed in Business Combinations

During the last several years the Company has made certain business combinations. According to IFRS 3, for business combinations occurring after the IFRS transition date, the Company allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Company exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at the appropriate rates. The use of valuation assumptions includes discounted cash flow estimates and discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

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The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

Step-acquisitions in which control is obtained

When a business combination is achieved in stages, the interest previously held by the Company in the acquired company is remeasured at fair value at acquisition date (in the date when the Company acquires the control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts related to the acquired company which were recognized in Other comprehensive income before the acquisition date, are reclassified to income, where such treatment would be appropriate in case this interest was sold.

Acquisitions in which control is obtained initially

Acquisitions of subsidiaries and businesses are accounted for under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued by the Group in exchange for control. The acquiree s identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Under the previous version of the Standard, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration are recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the provisional period (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

Increases/decreases in non-controlling interests

In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate.

The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) are recognized in profit or loss. Under the revised standards, all increases or decreases in such interests are accounted for within equity, with no impact in goodwill or profit or loss.

Subsequent purchases, after the Company has obtained control, are treated as the acquisitions of shares from non-controlling shareholders: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional proportion of the company is accounted for within equity.

Loss of control of a subsidiary

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Company derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date that control is lost. This fair value is reflected in the calculation of the gain or loss on disposal attributable to the parent, and becomes the initial carrying amount for subsequent accounting for the retained interest.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Company may be exposed to losses that could be material.

e) Impairment Test of Assets with definite and indefinite useful life

There are specific rules to assess the impairment of long-lived assets, especially property, plant and equipment, goodwill and other intangible assets. On the date of each Financial Statement, the Company performs an analysis to determine if there is evidence that the

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carrying amount of long-lived assets is impaired. If such evidence is identified, the recoverable amount of the assets is estimated by the Company.

The recoverable amount of an asset is determined as the higher of: (a) its fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flows (before taxes) derived from the continuous use of the asset until the end of its useful life.

Regardless of whether or not there is any indication that the carrying amount of the asset may not be recovered, the balances of goodwill arising from business combinations and assets with indefinite useful lives are tested for impairment at least once a year, in December.

When the residual carrying value of the asset exceeds its recoverable amount, the Company recognizes a reduction in this asset s book balance.

For assets recorded at cost, the reduction in recoverable amount must be recorded in income for the year. If the recoverable amount of an asset is not determined individually, the recoverable amount of the business segment to which the asset belongs is analyzed.

Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined as if the impairment had not been recorded.

The Company evaluates the recoverability of goodwill on investments annually and uses accepted market practices, including discounted cash flow for units with goodwill allocated and comparing the book value with the recoverable amount of the assets.

Recoverability of goodwill is evaluated at each balance sheet reporting date based on the analysis and identification of facts and circumstances that can indicate the necessity to also perform an impairment test at an interim date. If some fact or circumstance indicates that the recoverability of goodwill may be impaired as of an interim period, then the test is performed.

During the fourth quarter of 2016, the Company identified deterioration in the economic conditions of certain steel consuming markets at a rate greater than the one considered in the quarterly monitoring carried out during 2016. This occurred mainly in the North America segment, where the EBITDA margin decreased from 7.5% in the third quarter of 2016 to 3.8% in the fourth quarter of 2016 (8.7% in the fourth quarter of 2015). These circumstances resulted in an increase in the discount rate used in the projections of its business segments cash flows. The Company performed an impairment test of goodwill and other long-lived assets, in which an impairment of assets was identified in the amount of R$ 2,917,911 (R$ 4,996,240 in 2015), in which R$ 239,329 (R$ 2,467,757 in 2015) as impairment of other long-lived assets and R$ 2,678,582 (R$ 2,528,483 in 2015) as impairment of goodwill.

In the fourth quarter of 2016, due to the interruption of certain activities as result of significant changes in the economy of the region where these units are located and the lack of expectation of future use of some assets of these industrial plants, tests performed on other long-lived assets

identified impairment losses on property, plant and equipment in the amount of R$ 239,329, of which R$ 138,765 was attributable to South America segment and R$ 100,564 to the North America segment, resulting from a recoverable amount below the book value. These losses were determined based on the difference between the book value and the recoverable amount of these assets in the amount of R$ 138,543, which represents their value in use (higher between the fair value net of disposal expenses and their value in use).

In 2015 the tests carried out on other long-lived assets identified impairment losses in the amount of R$ 2,467,757 as follows: a) in the property, plant and equipment due to the lack of expectation of future use of certain assets of certain industrial plants in the amount of R$ 2,105,971, of which R$ 834,665 in the Brazil segment and R$ 1,271,306 in the Special Steel segment, and b) R$361,786 in North America due to recoverable value lower than the book value. These losses were determined based on the difference between the book value and the recoverable value of these assets in the amount of R$ 1,930,813 that represents their value in use (higher between the net value of the disposal expense or their value in use); b) in the investment accounted for by the equity method of the associate company Corporación Centroamericana del Acero S.A., belonging to the North America segment, resulting from a recoverable amount below the book value in the amount of R$ 361,786. These losses were determined based on the difference between the book value and the recoverable amount of these assets in the amount of R$ 215,808 which represents their value in use (higher between the fair value net of disposal expenses and their value in use).

The Company has four operating segments, which represents the lowest level in which goodwill is monitored by the Company. In the fourth quarter of 2016, the Company evaluated the recoverability of the goodwill of its segments. Based on the aforementioned events, notably the deterioration of the economic conditions reflected in the EBITDA margin, the analysis carried out identified a loss due to

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non-recoverability of goodwill in the amount of R$ 2,678,582 for the North America segment. The other segments did not have impairment of goodwill in the test performed in 2016.

In 2015, the analysis identified a loss of R$ 2,528,483 due to the non-recoverability of goodwill, of which R$ 1,520,453 for the North America segment, R$ 653,562 for the Specialty Steel segment and R$ 354,468 for the South America segment, which represented the totality of goodwill in this segment. The Brazil segment did not have impairment of goodwill.

The Company performs goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans and long-term economic-financial forecasts.

The period for projecting the cash flows for the goodwill impairment test was five years. The assumptions used to determine the value in use based on the discounted cash flow method include analysis prepared in dollars, such as: projected cash flows based on management estimates for future cash flows, exchange rates, discount rates and growth rates on perpetuity. The cash flow projections already reflect a more challenging competitive scenario than projected in previous years, resulting from a deterioration in the steel consuming markets and overcapacity in the industry, as well as macroeconomic challenges in certain markets in which the Company operates. The perpetuity was calculated considering stable operating margins, levels of working capital and investments. The perpetuity growth rates considered in the 2016 test were: a) North America: 3% (3% in December 2015); b) Special Steel: 3% (3% in December 2015); c) South America: 3% (2.2% in December 2015); and d) Brazil: 3% (3% in December 2015).

The pre-tax discount rates used were determined taking into consideration market information available on the date of performing the impairment test. The Company adopted distinct rates for each business segment tested with the purpose of reflecting the differences among the markets in which each segment operates, as well as the risks associate to each of them. The pre-tax discount rates used were: a) North America: 13.1% (12.3% in December 2015); b) Special Steel: 14.0% (12.8% in December 2015); c) South America: 14.6% (13.7% in December 2015); and d) Brazil: 14.9% (15.5% in December 2015).

Discounted cash flows are compared to the book value of each segment and result in the recoverable amount as shown below: a) North America: below the book value of R$ 2,679 million (below the book value of R$ 1,169 million in 2015); b) South America: exceeded the book value by R$ 724 million (below the book value by R$ 354 million in 2015); c) Special Steel: exceeded the book value by R$ 1,601 million (below the book value by R$ 1,125 million in 2015); and d) Brazil: exceeded the book value by R$ 1,225 million (exceeding the book value by R$ 43 million in 2015).

The Company performed a sensitivity analysis in the assumptions of discount rate and perpetuity growth rate, due to the potential impact in the discounted cash flows.

An increase of 0.5 % in the discount rate of each segment s cash flow would result in a recoverable amount below the book value and / or that exceeded the book value as shown below: a) North America: below book value of R$ 872 million (below the book value by R$ 1,452 million in 2015); b) Special Steel: exceeded book value by R$ 1,170 million (below the book value by R$ 582 million in 2015); c) South America:

exceeded book value by R$ 486 million (below the book value by R$ 354 million in 2015); and d) Brazil: exceeded the book value by R$ 425 million (below the book value by R$ 765 million in 2015).

On the other hand, a decrease of 0.5 % in the perpetuity growth rate of the cash flow of each business segment would result in a recoverable amount below the book value and / or that exceeded the book value as shown below: a) North America: below the book value by R$ 661 million (below the book value by R$ 1,076 million in 2015); b) Special Steel: exceeded the book value by R$ 1,301 million (below the book value by R$ 428 million in 2015); c) South America: exceeded the book value by R$ 561 million (below the book value by R$ 253 million in 2015); and d) Brazil: exceeded the book value by R$ 673 million (below the book value by R$ 514 million in 2015).

The Company will maintain over the next year its constant monitoring of the steel market in order to identify any deterioration, significant drop in demand from steel consuming sectors (notably automotive and construction), stoppage of industrial plants or activities relevant changes in the economy or financial market that result in increased perception of risk or reduction of liquidity and refinancing capacity. Although the projections made by the Company provide a more challenging scenario than that in recent years, the events mentioned above, if manifested in a greater intensity than that anticipated in the assumptions made by management, may lead the Company to revise its projections of value in use and eventually result in impairment losses, therefore, if the cash flows reached in 2017 and after, mainly for the North America business operations, do not exceed actual cash flows generated in 2016, it may result in additional impairment losses.

Goodwill that forms part of the carrying amount of an investment in an associate or in a jointly controlled entity is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a jointly controlled entity is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair

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value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or jointly controlled entity. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination is evaluated for recoverability on an annual basis, and also when events or circumstances indicate the necessity. The test considers accepted market practices, including cash flows and compares the book value with its fair value. The reversal of goodwill impairment losses previously recognized from business combinations is not allowed.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for the Company s operating segments, based on projected cash flows, may be negatively impacted if the economic global recovery happens slower than what management expected during the preparation of financial statements in December 2016.

Additional information related to impairment of goodwill and other long lived assets are described at note 28 of Consolidated Financial Statements contained herein.

B. LIQUIDITY AND CAPITAL RESOURCES

Gerdau s usual main source of liquidity is the cash generated by its operating activities. Moreover, the Company counts on committed credit facilities. The Company expects to meet its cash needs for 2017 primarily through a combination of operating cash flow, cash and cash equivalents and short-term investments.

Cash Flow

The table below presents information for the cash flow of the respective years:

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	2016	2015	2014	Variation 2016/2015	Variation 2015/2014
Cash flows from operating activities					
Net income (loss) for the year	(2,885,929)	(4,595,986)	1,488,373	-37.2%	-408.8%
Adjustments to reconcile net income for the year to net cash provided by operating activities					
Depreciation and amortization	2,535,955	2,607,909	2,227,396	-2.8%	17.1%
Impairment of Assets	2,917,911	4,996,240	339,374	-41.6%	1372.2%
Equity in earnings of unconsolidated companies	12,771	24,502	(101,875)	-47.9%	-124.1%
Exchange variation, net	(851,635)	1,564,017	476,367	-154.5%	228.3%
Losses (Gains) on financial instruments, net	38,930	(87,085)	(36,491)	-144.7%	138.6%
Post-employment benefits	229,767	233,287	200,699	-1.5%	16.2%
Stock based remuneration	46,683	48,589	39,614	-3.9%	22.7%
Income tax	304,314	(1,498,422)	(150,389)	-120.3%	896.4%
Gains on disposal of property, plant and equipment and investments	(43,340)	(3,971)	(48,639)	991.4%	-91.8%
Results in operations with subsidiaries, associate and jointly controlled entity	58,223		(636,528)		-100.0%
Allowance for doubtful accounts	68,781	127,701	49,890	-46.1%	156.0%
Provision for tax, labor and civil claims	347,882	323,314	281,876	7.6%	14.7%
Interest income on investments	(107,980)	(153,631)	(144,723)	-29.7%	6.2%
Interest expense on loans	1,540,797	1,471,526	1,178,034	4.7%	24.9%
Interest on loans with related parties	2,457	(2,712)	(2,743)	-190.6%	-1.1%
(Reversal) Provision for net realisable value adjustment in inventory	(31,492)	17,536	(6,062)	-279.6%	-389.3%
	4,184,095	5,072,814	5,154,173	-17.5%	
Changes in assets and liabilities					
Decrease (Increase) in trade accounts receivable	64,805	1,219,605	(36,468)	-94.7%	-3444.3%
Decrease (Increase) in inventories	794,591	1,977,361	(173,191)	-59.8%	-1241.7%
Increase (Decrease) in trade accounts payable	110,466	(768,627)	(251,911)	-114.4%	205.1%
Increase in other receivables	(275,938)	(270,391)	(701,550)	2.1%	-61.5%
(Decrease) Increase in other payables	(287,487)	(509,227)	280,187	-43.5%	-281.7%
Dividends from jointly-controlled entities	124,495	52,769	95,600	135.9%	-44.8%
Purchases of trading securities	(880,436)	(1,958,522)	(3,028,974)	-55.0%	-35.3%
Proceeds from maturities and sales of trading securities	1,089,972	3,929,971	2,544,895	-72.3%	54.4%
Cash provided by operating activities	4,924,563	8,745,753	3,882,761	-43.7%	125.2%
Interest paid on loans and financing	(1,240,165)	(946,041)	(859,821)	31.1%	10.0%
Income and social contribution taxes paid	(168,032)	(637,394)	(452,079)	-73.6%	41.0%
Net cash provided by operating activities	3,516,366	7,162,318	2,570,861	-50.9%	178.6%
Cash flows from investing activities					
Purchases of property, plant and equipment	(1,323,891)	(2,324,718)	(2,266,702)	-43.1%	2.6%
Proceeds from sales of property, plant and equipment, investments and other intangibles	308,694	90,942	1,067,938	239.4%	-91.5%
Purchases of other intangibles	(54,044)	(126,428)	(141,956)	-57.3%	-10.9%
Payment for business acquisitions, net of cash of acquired entities		(20,929)			
Capital increase in jointly-controlled entity		(40,524)			
Net cash used in investing activities	(1,069,241)	(2,421,657)	(1,340,720)	-55.8%	80.6%
Cash flows from financing activities					
Reduction of capital by non-controlling interests			(550,000)		
Purchase of treasury shares	(95,343)	(189,071)		-49.6%	
Proceeds from exercise of shares			5,483		

Dividends and interest on capital paid	(85,962)	(358,226)	(455,139)	-76.0%	-21.3%
Proceeds from loans and financing	2,455,371	3,042,783	2,771,048	-19.3%	9.8%
Repayment of loans and financing	(4,605,406)	(5,028,386)	(2,173,555)	-8.4%	131.3%
Intercompany loans, net	(6,492)	30,126	8,939	-121.5%	237.0%
Increase in controlling interest in subsidiaries		(339,068)	(130,199)		160.4%
Net cash used in financing activities	(2,337,832)	(2,841,842)	(523,423)	-17.7%	442.9%
Exchange variation on cash and cash equivalents	(693,990)	699,290	244,029	-199.2%	186.6%
(Decrease) Increase in cash and cash equivalents	(584,697)	2,598,109	950,747	-122.5%	173.3%
Cash and cash equivalents at beginning of year	5,648,080	3,049,971	2,099,224	85.2%	45.3%
Cash and cash equivalents at end of year	5,063,383	5,648,080	3,049,971	-10.4%	85.2%

Cash and cash equivalents totaled R$ 5,063.4 million, R$ 5,648.1 million and R$ 3,050.0 million on December 31, 2016, 2015 and 2014, respectively, as analyzed below:

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Net cash provided by operating activities

Net cash from operating activities amounted to R$ 3,516.4 million, R$ 7,162.3 million and R$ 2,570.9 million in the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

In 2016, net cash from operating activities declined 50.9% compared to 2015, mainly due to the lower use of working capital and to the lower redemptions of financial investments. In working capital, the decrease of R$ 64.8 million in trade accounts receivable, decrease of R$ 794.6 million in inventories and an increase of R$ 110.5 million in trade accounts payable had a net positive effect of R$ 969.9 million on the Company s cash from operating activities in 2016. In 2015, this net positive effect on cash was R$ 2,428.3 million, due to the decrease of R$ 1,219.6 million in trade accounts receivable, decrease of R$ 1,977.4 million in inventories and decrease of R$ 768.6 million in accounts payable. The main factor leading to the net positive effect of R$ 969.9 million on the Company s cash from operations in 2016 was the decrease in inventories, especially at the North America Business Division. This resulted from the adjustment of inventories to the lower shipments, which were affected by continued pressure from imported goods in the region, despite the continued solid demand from the non-residential construction industry. The cash generated by the redemption of financial investments was used to amortize the Company s short- and long-term liabilities.

In 2015, net cash provided from operating activities increase 178.6% compared to 2014, mainly due to the lower working capital and higher proceeds from the redemption of financial investments. In working capital, the decrease of R$ 1,220 million in trade accounts receivable, the decrease of R$ 1,977 million in inventories and the decrease of R$ 769 million in trade accounts payable had a positive impact of R$ 2,428 million on the Company s cash from operating activities in the year. In 2014, this impact was negative R$ 461 million, due to the increase of R$ 36 million in trade accounts receivable, the increase of R$ 173 million in inventories and the decrease of R$ 252 million in accounts payable. The main factor leading to the positive impact of R$ 2,428 million in the Company s cash from operations in 2015 was the reduction in inventories, especially in the North America Business Division, due to the adjustment of inventories to the lower shipments, which were affected by the continued pressure from imported products in the region, despite the continued good demand from the non-residential construction sector. The cash generated by the redemption of financial investments was used to amortize the Company s short- and long-term liabilities.

Cash conversion cycle

In 2016, as a result of the decrease in working capital(1) (-26.4%) coupled with the decrease in net sales (-17.8%) in the last three months of 2016 compared to the last three months of 2015, the cash conversion cycle(2) and working capital decreased from 84 days in 2015 to 75 days in 2016 (from 40 days sales outstanding in 2015 to 37 days in 2016, 76 days inventory outstanding in 2015 to 66 in 2016 and 31 days payable outstanding in 2015 to 29 days in 2016).

In 2015, as a result of the decrease in working capital(1) (-3.3%) in comparison with the decrease in net sales (-3.6%) in the last three months of 2015 in relation to the last three months of 2014, the cash conversion cycle(2) and working capital remained stable at 84 days (from 37 days sales outstanding in 2014 to 40 days in 2015, 74 days inventory outstanding

in 2014 to 76 in 2015 and 27 days payable outstanding in 2014 to 32 days in 2015), with the changes in the length of time of working capital realizations/ requirements offsetting each other.

Net cash used in investing activities

Net cash used in investing activities decreased 55.8%, from R$ 2,421.7 million in 2015 to R$ 1,069.2 million in 2016, mainly due to lower capital expenditure (addition to fixed assets) and to the proceeds from the divestment of the special steel units in Spain, a long steel mill in Colombia, metallurgical coke mills in Colombia, the 30% interest in Aceros Guatemala and manufacturing units and land in the United States.

Net cash used in investing activities increased 80.6%, from R$1,341 million in the year ended December 31, 2014 to R$2,422 million in 2015, mainly due to the fact that 2014 was affected by the cash received from divestments (particularly the sale of the 50% interest in Gallatin Steel Company).

Net cash used in financing activities

Net cash from financing activities went from the use of R$ 2,841.8 million in the fiscal year ended December 31, 2015 to the use of R$ 2,337.8 million in 2016. This variation was mainly due to the use of R$ 339.1 million for the acquisition of additional interests

(1) *Working capital*: trade accounts receivable, plus inventories, less suppliers (based on the balance at end of period for all accounts).

(2) *Cash conversion cycle*: working capital, divided by net sales (in last three months), multiplied by 90.

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in subsidiaries in 2015, which did not occur in 2016. Furthermore, in 2016, the Company distributed lower dividends and acquired fewer treasury shares than in 2015.

Cash flow from financing activities went from the use of R$ 523 million in the fiscal year ended December 31, 2014 to the use of R$ 2,842 million in 2015. This variation was mainly due to the net amount of contributions and amortizations of loans and financing, which in 2014 amounted to R$ 597 million in contributions and in 2015 amounted to R$ 1,986 million in amortizations. The amortizations made in 2015 refer mainly to settlements of working capital lines and of other long-term financings.

Indebtedness

The Company s debt is used to finance investments in fixed assets, including the modernization and technological upgrade of its plants and the expansion of installed capacity, as well as for working capital, acquisitions and, depending on market conditions, short-term financial investments.

The following table profiles the Company s debt in the years ended December 31, 2016, 2015 and 2014 (in thousands of Brazilian *reais*):

	2016	2015	2014
SHORT TERM:	**4,458,220**	**2,387,237**	**2,037,869**
Debentures			
LONG TERM:	**16,125,013**	**24,073,620**	**17,483,616**
Total long-term debt	**15,959,590**	**23,826,758**	**17,148,580**
Debentures	**165,423**	**246,862**	**335,036**
TOTAL DEBT:	**20,583,233**	**26,460,857**	**19,521,485**
Short and long-term investments, cash and cash equivalents	6,087,794	6,918,840	5,848,805
In R$	1,609,145	2,289,407	3,465,532
Companies abroad	4,478,649	4,629,433	2,383,273
NET DEBT(1)	**14,495,439**	**19,542,017**	**13,672,680**

(1) The calculation of net debt is made by subtracting cash and cash equivalents from total debt. Net debt is not a GAAP measure recognized under IFRS and should not be considered in isolation from other financial measures. Other companies may calculate net debt differently and therefore this presentation of net debt may not be comparable to other similarly titled measures used by other companies.

Total debt was R$ 20,583 million, R$ 26,461 million and R$ 19,521 million in the fiscal years ended December 31, 2016, 2015 and 2014, respectively. The R$ 5.9 billion decrease between December 2015 and December 2016 was mainly due to the effects from exchange variation during 2016 (appreciation of 16.5% of the Brazilian real against the U.S. dollar in 2016), in addition to the amortization of financings of working

capital and fixed assets. The reduction in the cash position of R$831 million between December 2015 and December 2016 was mainly due the amortization of financings of working capital and fixed assets in 2016, in addition to the effects from exchange variation on the reconversion of balances at subsidiaries abroad. As of December 31, 2016, 73.6% of cash was held by Gerdau companies abroad and denominated mainly in U.S. dollars.Net debt (net debt is a non-GAAP metric defined as short- and long-term debt plus debentures less short- and long-term investments and cash and cash equivalents, which is broadly used by investors to measure a company s debt position) decreased 25.8%, from R$ 19,542 million in 2015 to R$ 14,495 million in 2016, due to the decline in total debt. The R$6.9 billion increase in gross debt between December 2014 and December 2015 is mainly explained by the effects from exchange variation in the comparison periods (depreciation in the end-of-period price of the Brazilian real against the U.S. dollar of 47.0% in 2015). The R$1.1 billion increase in cash from December 2014 to December 2015 is mainly due to the effect from exchange variation in the comparison periods on the cash held by Gerdau companies abroad. On December 31, 2015, 66.9% of cash was held by Gerdau companies abroad and denominated mainly in U.S. dollar. The net debt (Net debt is a non-GAAP metric defined as short-term debt and long plus debentures and less short and long-term investments and cash and cash equivalents, widely used by investors to measure the indebtedness of the Company) increased 42.9%, from R$ 13,673 million in 2014 to R$ 19,542 million in 2015, due to the increase in gross debt, which was partially offset by the higher cash position.

Of the total debt on December 31, 2016, short term debt corresponded to 21.7% and long-term debt to 78.3% (on December 31, 2015, 9.0% was short-term debt and 91.0% was long-term debt, and on December 31, 2014, 10.4% was short-term debt and 89.6% was long-term debt).

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As of December 31, 2016, short-term debt was R$ 4,458 million, representing an increase of 86.8% in relation to 2015, due to the R$ 2.7 billion in 2017 Bonds coming due in October 2017.The Company holds cash equivalents and credit facilities in an amount more than sufficient to meet this commitment and also has the option of refinancing this liability. On December 31, 2015, the total short-term debt amounted to R$ 2,387 million, representing an increase of 17.1% compared to 2014. This increase in short-term debt was mainly due to the effect of exchange variation on debt denominated in foreign currency, further the transfer of debt denominated in Brazilian *reais* from long-term to short-term.

As of December 31, 2016, long-term debt was R$ 16,125 million, representing a decline of 33.0% in relation to 2015, due to the effects from exchange variation on foreign-denominated debt over the course of 2016, in addition to the amortization of financings of working capital and fixed assets. On December 31, 2015, the total long-term debt amounted to R$ 24,074 million, an increase of 37.7% from 2014, mainly due to the exchange variation in the period on debt denominated in foreign currencies in 2015.

As of December 31, 2016, the maturity profile of the Company s long-term debt with financial institutions, including debentures, was as follows:

Gerdau S.A. Consolidated **Long-Term Amortization**	**(R$ thousands)**
2018	1,679,416
2019	875,319
2020	3,278,702
2021	3,545,229
2022 and After	6,746,347
Total	**16,125,013**

Financial Agreements

We highlight the material financial agreements outstanding at year end 2016:

UKEF UK Export Finance

In June 2011, the subsidiary Gerdau Açominas S.A. entered into a financing agreement covered by ECGD (Export Credits Guarantee Department), the English Export Credit Agency (ECA), with the banks Deutsche Bank AG, London Branch, HSBC Limited, Tokyo Branch, Citibank Europe plc and BNP Paribas. On December 31, 2016, the outstanding balance of this facility was US$ 150.9 million (R$ 491.9 million as of December 31, 2016).

Bonds

The Company, through its subsidiaries GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc., concluded in 2007, 2009, 2010, 2013 and 2014, the issuance of bonds each with maturity of 10 and 30 years (collectively Ten/Thirty Years Bond). The following companies guaranteed these transactions: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. On December 31, 2016, the outstanding balance of these bonds was R$ 14.2 billion.

Tokyo Loan Agreement

In June 2013 the subsidiary Gerdau Steel India entered into a loan agreement in the amount of US$ 40 million, denominated in INR, with The Bank of Tokyo-Mitsubishi, with a term of five years. The outstanding amount of this facility was US$ 40 million as of December 31, 2016 (R$ 130.4 million as of December 31, 2016) and the Company guarantees this transaction.

NCE Banco do Brasil (R$ 660 MM)

In September 2013, the subsidiary Gerdau Açominas issued an Export Credit Note worth R$ 660 million, maturing on August 18, 2020, with Banco do Brasil S.A. acting as the creditor. On December 31, 2016, the outstanding balance of the facility was R$ 585 million.

HSBC Loan Agreement

In December 2013, the subsidiary Gerdau Steel India entered into a loan agreement in the amount of US$ 25 million with HSBC, with a term of five years. The outstanding amount of this facility was US$ 25 million as of December 31, 2016 (R$ 81.5 million as of December 31, 2016) and the Company guarantees this transaction.

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EXIM PSI BNDES

During 2016 the Company raised R$ 670.3 million through the BNDES Program EXIM PSI, with a term of two years.

Sumitomo Credit Agreement

In March 2014, the associate company Gerdau Corsa entered into a loan agreement in the amount of US$ 75 million, denominated in Mexican Pesos, with Sumitomo Mitsui Banking Corporation, with a term of five years. The outstanding amount of this facility was US$ 47.8 million as of December 31, 2016 (R$ 155.8 million as of December 31, 2016) and the Company guarantees this transaction.

NCE Banco do Brasil (R$ 500 MM)

In March 2014, the subsidiaries Gerdau Açominas and Gerdau Aços Especiais issued an Export Credit Note worth R$ 500 million, maturing on February 16, 2020, with Banco do Brasil S.A. acting as the creditor. On December 31, 2016, the outstanding balance of the facility was R$ 387 million.

Citi Loan Agreement

In August 2015, the subsidiary Diaco entered into a loan agreement in the amount of US$ 40 million with Citibank and a term of three years. The outstanding amount of this facility was US$ 38.5 million as of December 31, 2016 (R$ 125.4 million as of December 31, 2016) and the Company guarantees this transaction.

4131 Citi

In October 2015, the subsidiary Gerdau Açominas entered into a 4131 loan agreement in the amount of R$ 656.2 million, with a term of five years and the Company guarantees this transaction.

BBVA Credit Agreement

In December 2015, the associate company Gerdau Corsa entered into a loan agreement in the amount of US$ 150 million, denominated in Mexican Pesos, with BBVA with a term of five years. The outstanding amount of this facility was US$ 120.6 million as of December 31, 2016 (R$ 393 million as of December 31, 2016) and the Company guarantees this transaction.

NCE Compulsória

In December, 2015 the Company raised R$ 50 million with Banco Santander through an Export Credit Note with maturity in five years.

Syndicated Loan

In December, 2016 the associate company Gerdau Corsa entered into a syndicated senior unsecured term loan in the amount of US$ 330 million, denominated in Mexican pesos. As of December 31, 2016 the outstanding amount was US$ 324.8 million (R$ 1.1 billion as of December 31, 2016) and the Company guarantees this transaction.

All loans contracted under the FINAME/BNDES program, totaling R$ 130.3 million, on the balance sheet date are secured by the assets being financed.

Indebtedness Ratios

All ratios described below, calculated based on the Consolidated Financial Statements under accounting practices adopted in Brazil and IFRS of Gerdau S.A., are related to BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*). In the event of a failure to satisfy the annual tests, Gerdau S.A. would have a grace period and a subsequent renegotiation of the security for the financing, and an event of default would not occur.

I) Net Interest Coverage Ratio measures the net interest expense payment capacity in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and Impairment of assets) and results in operations with subsidiaries, associate and jointly

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controlled entities. The ratio in the agreement requires that the EBITDA for the last 12 months should represent at least 3.5 times of the interest expense of the same period. As of December 31, 2016 such ratio 2.7 times in R$.

II) Net Leverage Ratio measures the level of net debt in relation to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and Impairment of assets) and results in operations with subsidiaries, associate and jointly controlled entities. The agreed ratio requires that the net debt should not surpass 4 times the EBITDA for the last 12 months. As of December 31, 2016 such ratio was 3.7 times in R$.

III) Current Ratio measures the company s ability to fulfill its short term obligations. The contractual terms requires that the ratio of Current Assets divided by Current Liabilities must be greater than 0.8 times. As of December 31, 2016 the current ratio was 2.1 times in R$.

Credit Lines

In June 2009, certain subsidiaries of the Company (Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau S.A.) entered into a credit line with BNDES in the total amount of R$ 1.5 billion bearing an interest rate of TJLP + 2.16% per annum when drawn. On December 31, 2016 the outstanding amount was R$ 665.7 million.

In December 2012 the subsidiary Gerdau Açominas S.A. obtained a committed credit line with BNDES in the total amount of R$776.6 million for the Plate and Steckel Mill project. The funds are provided as the subsidiary carries out its own investment plans and submit to BNDES the evidences of completion. The interest rate for this credit line is determined at the time of each disbursement and is composed by TJLP and exchange rate + 2.16% a year. The outstanding balance of this transaction was R$303.9 million as of December 31, 2016.

In September 2015, the Company prepaid and cancelled the Global Working Capital Facility and in October 2015, the Company entered into a new senior unsecured working capital facility in the amount of US$ 1 billion. The new global line is divided into two tranches, US$ 250 million for Gerdau s North American subsidiaries and US$ 750 million for Gerdau s Latin American subsidiaries. The outstanding loans under this line totaled US$ 188.3 million (R$ 613.7 million as of December 31, 2016).

Derivatives, Off-Balance Sheet Arrangements and Contractual Obligations

For more details see item 5-E OFF BALANCE SHEET ARRANGEMENTS

Guarantees Granted

The Company has guaranteed the financing contracts of Gerdau Açominas S.A. in the total amount of R$ 2.7 billion on December 31, 2016.

Gerdau Steel India Limited

The Company is the guarantor for Gerdau Steel India for a loan agreements in the amount of US$ 40 million (R$ 130.4 million as of December 31, 2016) with The Bank of Tokyo, US$ 25 million (R$ 81.5 million as of December 31, 2016) with HSBC issued in December, 2013, with a term of five years and US$ 43.8 million, denominated in INR, (R$ 142.7 million as of December 31, 2016) with Citi and a term of four years.

Bond Guarantees

The Company and the subsidiaries Gerdau Aços Longos S.A., Gerdau Açominas S.A. and Gerdau Aços Especiais S.A. are guarantors for GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc. for the issuance of bonds with maturity of 10 and 30 years. On December 31, 2016 the outstanding balance of these facilities was R$ 14.2 billion.

Diaco S.A.

The Company is the guarantor for the subsidiary Diaco S.A, Co-Borrower of the global credit line, for a working capital financing in the amount of US$ 80 million (R$ 260.7 million as of December 31, 2016) and US$ 3.4 million with BBVA (R$ 11.1 million as of December 31, 2016).

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The Company is the guarantor for the subsidiary Diaco S.A for loan agreement with Citibank in the amount of US$ 40 million, denominated in Colombian Pesos (COP). On December 31, 2016, the outstanding balance of this facility was US$ 38.5 million (R$ 125.4 million as of December 31, 2016).

Gerdau Corsa, S.A.P.I. de C.V.

The Company is the guarantor for the associate Gerdau Corsa, S.A.P.I. de C.V., Co-Borrower of the global credit line, for working capital financing in the amount of US$ 84.3 million (R$ 274.7 million as of December 31, 2016) and US$ 20 million (R$ 65.2 million as of December 31, 2016), both denominated in Mexican Pesos and working capital lines with Bank of America and Bladex in the amount of US$ 73.4 million (R$ 239.1 million as of December 31, 2016).

The Company is the guarantor for the associate Gerdau Corsa for loan agreements with Sumitomo in the amount of US$ 47.8 million (R$ 155.8 million as of December 31, 2016), US$ 120.6 million with BBVA (R$ 393 million as of December 31, 2016) and for a syndicated loan in the amount of US$ 324.8 million (R$ 1.1 billion as of December 31, 2016), both denominated in Mexican Pesos.

Sipar

Gerdau S.A. is the guarantor for the subsidiary Sipar for loan agreements in the amount of US$ 0.7 million with Citibank (R$ 2.3 million as of December 31, 2016), US$ 105 million with Banco de La Nación (R$ 342.2 million as of December 31, 2016), US$ 21.7 million with BBVA (R$ 70.9 million as of December 31, 2016) and US$ 5.9 million with Banco Patagônia (R$ 19.3 million as of December 31, 2016).

Sizuca

Gerdau S.A. is the guarantor for the subsidiary Sizuca for a loan agreement in the amount of US$ 20 million with Citibank (R$ 65.2 million as of December 31, 2016).

Comercial Gerdau (Bolivia)

The Company is the guarantor for the subsidiary Comercial Gerdau S.A., Co-Borrower of the global credit line, for a working capital financing in the amount of US$ 4 million (R$ 13 million as of December 31, 2016).

Derivatives

Risk management objectives and strategies**:** The Company understands that it is subject to different market risks, such as fluctuations in exchange rates, interest rates and commodity prices. In order to carry out its strategy for profitable growth, the Company implements risk management strategies with the objective of mitigating such market risks.

The Company s objective when entering into derivative transactions is always related to mitigation of market risks as stated in our policies and guidelines. All outstanding derivative financial instruments are monthly reviewed by the Financial Risk Management Committee, which validates the fair value of such financial instruments. All gains and losses in derivative financial instruments are recognized by its fair value in the Consolidated Financial Statements of the Company.

Policy for use of derivatives: according to internal policy, the financial result must arise from the generation of cash from its business and not gains from the financial market. The Company uses derivatives and other financial instruments to reduce the impact of market risks on its financial assets and liabilities or future cash flows and earnings. Gerdau has established policies to assess market risks and to approve the use of derivative financial instruments transactions related to those risks. The Company enters into derivative financial instruments to manage the above mentioned market risks and never for speculative purposes.

Policy for determining fair value: the fair value of the derivative financial instruments is determined using models and other valuation techniques, which involve future prices and curves discounted to present value as of the calculation date. Amounts are gross before taxes. Due to changes in market rates, these amounts can change up to the maturity or in situations of anticipated settlement of transactions.

The derivative financial instruments may include: interest rate swaps, cross currency swaps and currency forward contracts.

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Dollar forward contracts: the Company entered into NDF operations (Non Deliverable Forward) in order to mitigate the foreign exchange risk on assets and liabilities denominated in foreign currencies, mainly U.S. dollar. The counterparties of these transactions are financial institutions with low credit risk.

Swap Contracts: the Company entered into cross currency swap, designated as a cash flow hedge, contract whereby it receives a variable interest rate based on LIBOR in US dollars and pays a fixed interest rate based in the local currency. The counterparties to these transactions are financial institutions with low credit risk.

			Notional value		Amount receivable		Amount payable	
Contracts	**Position**		**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Forward								
Maturity at 2016		long in USD		US$ 108.0 million		37,981		
Maturity at 2017		long in USD	US$ 84.8 million		734		(6,584)	
Maturity at 2017		short in USD	US$ 15.0 million		1,823			
Cross currency swap								
Maturity at 2017	receivable under the swap	Libor 6M + 2.25%	US$ 25.0 million	US$ 25.0 million	5,684	1,756		
	payable under the swap	INR 11.02%						
Maturity at 2018	receivable under the swap	Libor 6M + 2%	US$ 40.0 million	US$ 40.0 million	4,710	3,864		
	payable under the swap	INR 10.17%						
Total fair value of financial instruments					12,951	43,601	(6,584)	

The effects of financial instruments are classified as follow:

	2016	**2015**
Unrealized gains on financial instruments		
Current assets	2,557	37,981
Non-current assets	10,394	5,620
	12,951	43,601
Unrealized losses on financial instruments		
Non-current liabilities	(6,584)	
	(6,584)	

	2016	**2015**
Net Income		
Gains on financial instruments	33,753	129,917
Losses on financial instruments	(72,683)	(42,832)
	(38,930)	87,085
Other comprehensive income		
Gains (Losses) on financial instruments	212	17,283

	212	17,283

For further information regarding swap contracts (interest rate swap and cross currency swap) refer to Note 15 Financial Instruments, item e) Operations with Derivative Financial Instruments.

Capital Expenditure

2016 Capital Expenditure

In fiscal year 2016, capital expenditure on fixed assets was R$ 1,323.9 million. Of this total, 46.0% was allocated to the operations in Brazil and the remaining 54.0% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Division a total of R$ 608.5 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill, which started production at the end of July, 2016.

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North America Business Division this business division spent R$ 227.4 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

South America Business Division in 2016, the South American units spent R$ 347.0 million for capital expenditure on fixed assets distributed among the countries in which the units from this business division are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year and will start production on March of 2017.

Special Steel Business Division the special steel units spent R$ 140.9 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

2015 Capital Expenditure

In fiscal year 2015, capital expenditure on fixed assets was R$ 2,324.7 million. Of this total, 46.9% was allocated to the operations in Brazil and the remaining 53.1% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Division a total of R$ 1,091.2 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill, which will start production at the end of July, 2016.

North America Business Division this business division spent R$ 346.9 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

South America Business Division in 2015, the South American units spent R$ 443.6 million for capital expenditure on fixed assets distributed among the countries in which the units from this business division are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year and will start production on March of 2017.

Special Steel Business Division the special steel units spent R$ 442.9 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

2014 Capital Expenditure

In fiscal year 2014, capital expenditure on fixed assets was R$ 2,266.7 million. Of this total, 40.0% was allocated to the operations in Brazil and the remaining 60.0% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Division a total of R$ 1,068.5 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill. Currently, the project is in the phase of installation of the metal structures of the buildings and electromechanical installation of the equipment. In the mining project, the investment was mainly spent on the maintenance of the operation.

North America Business Division this business division spent R$ 308.7 million for capital expenditure on fixed assets distributed throughout the units which compose this business division. This amount was mainly spent for the maintenance of the production units.

South America Business Division in 2014, the South American units spent R$ 320.5 million for capital expenditure on fixed assets distributed among the countries in which the units from this business division are located. Part of this investment is being used to build a new melt shop in Argentina, which will have a capacity of 650,000 tonnes of steel per year.

Special Steel Business Division the special steel units spent R$ 569.0 million in 2014 for capital expenditure. Part of this investment was to finalize the installation of the new special steel rolling mill at Monroe mill in the USA. Additionally, the Company concluded the installation of a new continuous casting in St. Paul in Minnesota (USA).

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Main Capital Expenditure Currently in Progress

The disbursements in fixed assets planned for 2017 are estimated at R$ 1.3 billion, and include both strategic and maintenance investments.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.

System supported by a wide array of quality control tools. Product development projects are headed by specialists who use quality tools such as Six Sigma , a set of statistical methods for improving the assessment of process variables, and the concept of Quality Function Deployment , a methodology through which technicians can identify and implement the customer requirements.

Given this level of quality management, mills are ISO 9001 or ISO TS 16949 certified as well as a sort of products and laboratories certification according demands. In general, production, technical services and quality teams are responsible for All Gerdau mills have a Quality Management developing new products to meet customer and market needs.

Gerdau uses a Quality Management System developed in house that applies tests for product design, manufacturing processes and final-product specifications. A specially trained team and modern technologies also exist to assure the manufactured product high standards of quality. Gerdau s technical specialists do planned visits, some are randomly selected and some are scheduled visits, to its customers to check on the quality of the delivered products in order to guarantee the final user satisfaction for products purchased indirectly.

Due to the specialized nature of its business, the Gerdau special steel mills are constantly investing in technological upgrading and in research and development. These mills are active in the automotive segment and maintain a technology department (Research and Development) responsible for new products and the optimization of existing processes.

International machinery manufacturers and steel technology companies supply most of the sophisticated production equipment that Gerdau uses. These suppliers generally sign technology transfer agreements with the purchaser and provide extensive technical support and staff training for the installation and commissioning of the equipment. Gerdau has technology transfer and benchmarking agreements with worldwide recognized performance companies.

As is common with mini-mill steelmakers, Gerdau usually acquires technology in the market rather than develops new technology through intensive process research and development, since steelmaking technology is readily available for purchase.

Gerdau works continuously to monitor and anticipate the needs of its customers. For this, has research and development centers in Brazil and the United States used to meet the market demands for special steel, especially for the automotive industry. The Company invested in Technological Innovation projects and research and development the amount of R$ 95,3 million in 2014, R$ 117.9

million in 2015 and R$ 23.1 million in 2016.

The Company is not dependent on patents or licenses or new manufacturing processes that are material to its business.

D. TREND INFORMATION

The outlook for the world steel industry continues to call for weak consumption growth and overcapacity. In the countries in which we operate, it is the developed markets that present a positive outlook.

The U.S. economy should continue to improve in 2017 due to continued expansion of the non-residential construction sector and the continuing strong performance of the automotive sector. In addition, the President of the United States has stated that investment in infrastructure will be a priority of his administration, which should result in an increase in the country s steel consumption. Nevertheless, continued growth in steel imports should continue to pressure the margins and results of companies in the industry.

Brazil s outlook for 2017 is that the recession is nearing its end, but recovery will be gradual. The comparison between the start of 2016 and of 2017 shows a clear improvement of the outlook. First, with inflation declining fast, the Central Bank has started a long and intense monetary easing cycle, which, without jeopardizing the goal of attaining the target of 4.5%, should lead to slight GDP growth in 2017 and set the stage for stronger growth in 2018. In parallel, the Central Bank has been announcing microeconomic reforms, such as simplification of the rules on banks reserve requirements and actions aimed to reduce banking spreads, both of which will boost the supply of credit further ahead. Second, after winning approval of the constitutional amendment that freezes primary expenditures in real terms, the government sent to Congress a proposal for social security reform, which has a good chance of being approved and will be an important step toward consolidation of fiscal equilibrium. This has caused the risk premiums to fall and virtually ended the fear that Brazil might be trapped in a situation of fiscal dominance , destroying the efficacy of monetary policy and seriously undermining economic growth. One of the consequences of this change in outlook has been appreciation of the real, which due to its effect of lowering inflation gives the Central Bank more leeway to reduce the interest rate to stimulate economic activity.

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Moreover, South America s other economies, in general, are expected to grow at varying rates in 2017, influencing apparent steel consumption in the region.

In relation to the special steel segment in particular, the outlook indicates a gradual recovery in Brazil s automotive industry, with a direct impact on special steel demand. In North America, the auto industry is expected to continue to perform well and the improved outlook for the oil and gas industry should result in an increase demand for special steel in the region. In India, estimates point to an increase in the production of vehicles, consequently expanding the consumption of special steels in the country.

We are also working with the expectation of price volatility in the international market and the possibility of higher steel imports in virtually all markets in which we operate, which is a point for the industry to monitor. Furthermore, geopolitical conflicts are curbing economic growth in certain regions of the globe and consequently impacting steel consumption and sales. In light of this scenario, Gerdau will continue to adjust its operations to developments in the world steel industry, while continuing to work to capture operating efficiency gains and ensure the sustainability of its business.

E. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the ones described below.

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with Banco Latinoamericano e Comércio Exterior, in the amount of US$ 40 million (R$ 130,364 as of December 31, 2016).

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with Bank of America, in the amount of US$ 30 million (R$ 97,773 as of December 31, 2016).

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with local banks, in the amount of US$ 330 million (R$ 1,075,503 as of December 31, 2016).

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with BBVA bank, in the amount of US$ 150 million (R$ 488,865 as of December 31, 2016).

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with Scotiabank, in the amount of US$ 110 million (R$ 358,501 as of December 31, 2016).

The Company provides a guarantee for the line of credit of its jointly controlled entity Gerdau Corsa SAPI de C.V., with Sumitomo, in the amount of US$ 75 million (R$ 244,432 as of December 31, 2016).

The Company is the guarantor of the jointly controlled entity Gerdau Corsa SAPI de C.V., co-borrower of a global credit line to finance working capital in the amount of US$ 106 million (R$ 345,465 as of December 31, 2016).

F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The next table sets forth the Company s contractual obligations on December 31, 2016 (in thousands of reais).

Contractual obligations (R$ thousands)	**Total**	**Payments due by period**			
		Less than 1 year	**1-3 years**	**4-5 years**	**More than 5 years**
Short-term debt obligations (1)	4,090,264	4,090,264			
Long-term debt obligations (1)	15,959,590		2,554,735	6,762,372	6,642,483
Debentures (1)	277,879			93,488	184,391
Interest payments	9,208,176	1,849,958	2,263,587	1,680,708	3,413,923
Unrealized losses on financial instruments	6,584	6,584			
Obligations with FIDC	1,007,259				1,007,259
Operating lease obligations (2)	382,684	80,842	123,931	82,986	94,925
Capital expenditures (3)	606,848	606,848			
Unconditional purchase obligations (4)	227,899	227,899			
Pension funding obligations (5)	144,417	136,828	2,588	2,077	2,924
Total	**31,911,600**	**6,999,223**	**4,944,841**	**8,621,631**	**11,345,905**

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(1) Total amounts are included in the December 31, 2016 consolidated balance sheet. See Note 13 - Loans and Financing and Note 14 - Debentures in the consolidated financial statements.

(2) Includes minimum lease payment obligations for equipment and real property leases in effect as of December 31, 2016.

(3) Purchase obligations for capital expenditures are related to capital projects. The full amount relates to capital project agreements where Gerdau has irrevocably committed with suppliers to acquire equipment. As the equipment had not been received by December 31, 2016, the corresponding liability has not yet been recorded in its financial statements.

(4) The majority of other purchase obligations are for inventory and operating supplies and expenses used in the ordinary course of business.

(5) Pension funding obligations are included as per actuarial computations made by third party actuaries.

G. SAFE HARBOR

See the disclaimer with respect to Forward-Looking Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A The Directors, Senior Management and Employees of the Company at December 31, 2016 and as of the date hereof are as follows:

CLAUDIO JOHANNPETER (born in 1963)

• Education: Degree in Metallurgical Engineering from the Universidade Federal do Rio Grande do Sul (UFRGS). He completed courses in Operations Management at University of London (Canada), Executive Development at Penn State (United States) and Advanced Management Program at Harvard (United States).

• Experience: He has worked at Gerdau since 1982. In 2007, he was elected Chief Operating Officer (COO), a position he held until August 2012. He is currently Chairman of the Board of Directors of Gerdau S.A. and Metalúrgica Gerdau S.A., and member of the Executive Committee of Gerdau - GEC.

ANDRÉ BIER GERDAU JOHANNPETER (born in 1963)

• Education: Degree in Business Administration from the Pontifícia Universidade Católica do Rio Grande do Sul (PUC RS). Studied General Business Administration at the University of Toronto (Canada), Marketing at the Ashridge Business School (UK), and Advanced Management at the Wharton School, University of Pennsylvania (United States).

• Experience: he has worked at Gerdau for over 30 years. Holds the positions of (i) Chief Executive Officer (CEO), member of the board, member of the Executive Committee, member of the Corporate Governance Committee and member of the Compensation and Succession Committee of Gerdau S.A.; (ii) Chief Executive Officer (CEO) and member of the board of Seiva S.A. - Florestas e Indústrias, company that is part of the Gerdau economic group; (iii) member of the Board and member of the Executive Committee of Metalúrgica Gerdau S.A., a listed company, holding of Gerdau S.A. (iv) He is member of the board of the Instituto Aço Brasil (Brazilian Steel Institute) and member of the Executive Committee of Worldsteel Association. He also serves as member of the Board of the Strategic Superior Council of the Federation of Industries of the State of São Paulo (FIESP) and Economic Council of the Federation of Industries of the State of Rio Grande do Sul (FIERGS).

RICHARD CHAGAS GERDAU JOHANNPETER (born in 1974)

• Education: Degree in Law and Social Sciences from the Universidade Federal do Rio Grande do Sul (UFRGS) and has an MBA from the Stanford Graduate School of Business (United States)

• Experience: He began his career as an intern in 1993. In 1995 he was hired as a salesman of Civil Construction Steel Area and was promoted in 1996 to Administration Manager, also passing through Sales and Marketing of the same area. In 1997 he was transferred to the financial area at Gerdau as Technical Advisor, and later was transferred to São Paulo as Metallic Purchase Manager. In 2003 he returned to Porto Alegre to be Technical Advisor in Banco Gerdau. In 2005 he resigned his position to attend an MBA program in the United States, returning in 2007 as Investment Manager for Brazil and foreign operations. In 2010, he became the Investment Director of the holding company that controls Metalúrgica Gerdau SA, position he keeps so far. He is currently member of the Board of Directors and member of the Corporate Governance Committee in Gerdau S.A.

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EXPEDITO LUZ (born in 1951)

• Education: Degree in Law from the Universidade Federal do Rio Grande do Sul (UFRGS) in 1975 and a master s degree in Law from Columbia Law School in New York (United States) in 1980.

• Experience: He began working for Gerdau S.A. in 1976. In 1989 he became Legal Executive Director. In 2009 he became Executive Vice-President of Legal and Compliance, at which time he became a member of the Company s Executive Committee. In 2001 he became General Secretary of the Board of Directors. In April 2015, he left his executive positions at Gerdau S.A. and Metalúrgica Gerdau S.A. and on May 1, 2015, he joined the Board of Directors of both companies. He is also a member of the Corporate Governance Committee of Gerdau S.A.

AFFONSO CELSO PASTORE (born in 1939)

• Education: Degree in Economics from the University of São Paulo and has a PhD in Economics from the same university.

• Experience: He was Treasury Secretary of São Paulo State and President of the Central Bank of Brazil. He is (I) an Independent Member of the Board of Directors of Gerdau SA and Metalúrgica Gerdau SA, listed company, holding of Gerdau S.A. whose the activity is the manufacture of general steel products since February 2002 and also a member of the Corporate Governance Committee and member of the Compensation and Succession Committee of Gerdau S.A.; (ii) Member of the Board of Directors of M. Dias Branco S.A. - Industria e Comércio de Alimentos, listed company whose activity is the manufacturing and trade food products wheat derivatives, especially biscuits, crackers, pasta and wheat flour since July 2010. He was member of the Board of Directors of Even Construtora e Incorporadora S.A., listed company whose activity is the construction of buildings since February 2010 until April 2013; member of the Board of Directors of Klabin Segal S.A., a company whose activity is promotion, construction and real estate developments of any kind, own or third party from May 2006 until May 2008 and Engevix Engenharia S.A., leading company whose activity is elaborate studies, projects and integration and project management in Energy, Industry and Infrastructure areas, from March 2008 until August 2009. Pastore is the founder partner of AC Pastore & Associados SS Ltda, a consulting company, specializing in economics analysis of the Brazilian and International Economy. In addition, in the last 5 years he worked as an economist, analyst and economic adviser, writing articles, reports and studies. He participated in national and international seminars, and has given lecture on topics related to the Brazilian and World Economies.

FERNANDO FONTES IUNES (born in 1962)

• Education: Degree in Civil Engineering from the Faculdade de Engenharia da Universidade Mackenzie and obtained the title of MS and PhD from the University of London (UK).

• Experience: Fernando was a Senior Advisor, Partner and Executive Director, responsible for the Global Investment Banking of Banco Itaú BBA S.A. from 2010 to 2015, during which helped to establish a leading platform for Investment Banking in Latin America, with operations in Brazil, Argentina, Chile, Colombia, Peru and Mexico. Previously he held various positions in Banco Itaú BBA S.A., where he was Director responsible for the areas of Capital Markets 2003-2010, Itaú Banco de Investimento S.A., where he served as Executive Officer from 2001 to 2003, Banco BBA Creditantalt S.A. and Creditanstalt in New York in 1994. During that period, Fernando participated in some of the largest and most important capital markets transactions, mergers, acquisitions and reorganizations held in Latin America. Fernando also worked on the Infrastructure and Urban Development Department, Policy, Research and External Affairs at the World Bank in Washington. He was a professor of the Instituto Brasileiro de Mercado de Capitais - IBMEC (Insper). Currently, Fernando is a senior fellow at Harvard University in the 2017 Advanced Leadership Initiative in Cambridge, United States. On September 28, 2015, he joined the Board of Directors of Gerdau SA.

HARLEY LORENTZ SCARDOELLI (born in 1963)

• Education: Degree in Civil Engineering from the Universidade Federal do Rio Grande do Sul (UFRGS), graduated in Business Administration from the Pontifícia Universidade Católica do Rio Grande do Sul, and holds a CFA certification.

• Experience: He began his career at Gerdau in May 1988, during which he has worked for Gerdau s operations in Canada, United States, Spain and Brazil. Harley Lorentz Scardoelli was elected Statutory Director on July 15, 2015. On September 3, 2015, he was elected Vice President, responsible for Finance, Planning, Accounting, Tax and Legal. He also holds the position of Investor Relations Director of the companies Gerdau S.A., Metalúrgica Gerdau SA and Seiva S.A. Florestas e Indústrias. He is also board member of Abrasca.

GUILHERME CHAGAS GERDAU JOHANNPETER (born in 1971)

• Education: Degree in Law from the Unisinos in 1995 and has a Marketing and Finance MBA from Kellogg School of Management, Illinois (United States).

• Experience: He started his career at Gerdau in October 1985, as Administrative Assistant, and was promoted to Scrap Purchaser at Gerdau Riograndense in 1992 and then to Legal Assistant in Porto Alegre in 1994. In 1996, he was promoted to Sales Manager of the São Paulo subsidiary of Commercial Gerdau. In 2000, after he concluded his MBA and returned to Brazil, Guilherme was promoted to the position of Marketing and Planning Manager of Commercial Gerdau based in São Paulo. In 2002, he was promoted to the position of Executive Manager of the Industrial Wire Business Area (GPM); in 2003, he was promoted to the position of Executive Director of the Gerdau Industrial Products Business area (GI) and to the position of Executive Director of the Civil Construction Business Area

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and Rebar Fabrication (GC) in 2005. In 2006 Guilherme was appointed to the position of Marketing Director for Gerdau Long Steel North America (GLN), then called Gerdau Ameristeel and he relocated to Tampa, United States. In 2007 he was promoted to Vice Director for the Manitoba, Bright Bar and Duluth Grinding Balls facilities of the same Business Division. By this time, he also joined GLN Executive Committee. In 2009 Guilherme was appointed to Regional Director for Special Bar Quality and Wire Rod Operations at GLN which included the locations of Manitoba, St. Paul, Beaumont, Perth Amboy, Joliet and Duluth Grinding Balls. In 2010 Guilherme was promoted to Executive Director of Gerdau Special Steel North America (GSN) and in 2011 he was promoted to the position of Long Steel North America Business Division Leader, position hold until April, 4th, 2014 when he became member of the Gerdau Executive Committee, as Executive Vice President, coordinating the Special Steel Business Division and the Gerdau 2022 Project - Strategy , shifting its base to the office in São Paulo, Brazil. Guilherme Chagas Gerdau Johannpeter currently accumulates the functions as (i) member of the Board of Directors, Vice President Director and member of the Executive Committee of Metalurgica Gerdau S.A.; (ii) a member of the Board, member of the Succession and Compensation Committee and member of the Risk Committee of Gerdau S.A.; (iii) member of the Board of Directors of Seiva S.A. - Florestas e Indústrias.

FRANCISCO DEPPERMANN FORTES (born in 1963)

• Education: Degree in Metallurgical Engineering from Universidade Federal do Rio Grande do Sul (UFRGS) in 1985 and a master s degree in Business Administration from the same University in 2001. In 2008, he completed the Gerdau Business Program and in 2010, he attended the Stanford Executive Program at Stanford University in the United States.

• Experience: He started his career in 1984 as an intern in the Engineering area at Gerdau being, subsequently, hired as Technical Advisor in this same area. In 1992, after a period in which he studied and worked in Germany, he took the responsibility for coordinating the area of Management Systems of Aços Especiais Piratini, until 2000, also he accumulated the responsibility for the Human Resources of the unit. In 2001 he served as Manager of the Management System Area of Integrated Regional Unit of Long Steel Brazil. In 2003 he was transferred to the city of Porto Alegre where he started coordinating the global implementation and structuring of Gerdau Business System and Total Safety System, where he was promoted to Director of Management Systems in 2004. In January, 2006, he was promoted to the position of Executive Director of Gerdau Riograndense and Guaíra and in 2007 he was promoted to the position of Corporate Director of Human Resources, the position in which he added, over time, the processes of Organizational Development, Management Systems, Environment, Health and Safety, Management and Innovation, Shared Services, Business Security and Information Technology. Since 2011, he is the Vice President of Human Resources, Organizational Development, Management Systems, Environment, Health and Safety and Information Technology and member of the Executive Committee of Gerdau S.A. Since April 1, 2015 he is a member of the Executive Committee of Gerdau S.A., Metalurgica Gerdau S.A. and Seiva S.A. Florestas e Indústrias.

Find below the summary of the structures of the Board of Directors and of the Statutory Board of Executive Officers:

Board of Directors

Chairman:

Claudio Johannpeter

Board members:

André Bier Gerdau Johannpeter

Richard Chagas Gerdau Johannpeter

Expedito Luz

Affonso Celso Pastore

Fernando Fontes Iunes

Statutory Board of Executive Officers

Chief Executive Officer (CEO):

André Bier Gerdau Johannpeter

Vice-Presidents:

Claudio Johannpeter

Guilherme Chagas Gerdau Johannpeter

Francisco Deppermann Fortes

Vice-President, Chief Financial officer (CFO) and Investor Relations Officer

Harley Lorentz Scardoelli

Family Relationships

Jorge Gerdau Johannpeter, Germano Hugo Gerdau Johannpeter, Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter are brothers. André Bier Gerdau Johannpeter is Jorge Gerdau Johannpeter s son, Claudio Johannpeter is Klaus Gerdau Johannpeter s son, and Guilherme Chagas Gerdau Johannpeter and Richard Chagas Gerdau Johannpeter are sons of Frederico Carlos Gerdau Johannpeter. Guilherme Chagas Gerdau Johannpeter and Richard Chagas Gerdau Johannpeter are brothers.

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Arrangements

Gerdau has no agreement of any kind with shareholders, clients, suppliers or other parties with respect to the election of its officers or directors. There are no pending legal proceedings to which any Company Board Member, Executive Officer or Advisory Council is a party against the Company. Apart from statutory severance benefits, none of the Board Members, Executive Officers or Advisory Council is entitled to any contractual benefits upon termination of employment.

B. COMPENSATION

The employees compensation system is divided into two portions: a fixed salary and a variable pay linked to performance.

The fixed portion of the compensation is constantly monitored and compared to market benchmarks in order to maintain parity with the best market practices as adopted by other companies. The variable portion of the compensation package is tied to annual goals. These goals are measured against standards clearly specified that are intended to support and motivate overachievement of individual and teams results.

The human resources policy states and recognizes co-workers as being strategic to the business.

The Company conducts evaluations based on several different methodologies, including competence mapping, to track the managerial skills of its executives. Competence mapping aims to identify the degree of alignment of executives with the Company s strategies and business management and to monitor individual development.

In 2016, the Directors and Executive officers of Gerdau were paid a total of R$ 49.2 million in total remuneration as salary, variable remuneration, benefits, social charges, and termination. The variable remuneration of directors is determined based on Gerdau s financial results and individual performance evaluation. Fiscal Council members are not eligible for this installment.

Gerdau Group sponsors Pension Plans for its subsidiaries in Brazil and abroad. About 9% of participants are in the Defined Benefit plans and 91% in a Defined Contribution plan.

During 2016, Gerdau s contribution to the Gerdau Plan with respect to the executive officers amounted to R$ 1,3 million to the Defined Contribution Plan. This sum includes only that portion of contributions for executives who do not currently receive retirement benefits. These benefits are in no way different from those offered to the other employees of the Company.

On April 30, 2003, Gerdau s shareholders approved a new compensation program for strategic employees in the Company known as the Long Term Incentive Program. This program foresees the grant of options of the Company s Preferred Shares, on an annual basis, representing 20% of the annual base salary of each executive and, for the Directors and Executive Offices, an additional entrance bonus equivalent to 30% of the annual salary which latter was eliminated as of April 28, 2005. From 2005 on, in order to align their potential total compensation to market measures, the Board members were granted a number of shares representing 120% of their base salary. This modification of the long term incentive program was approved by the Compensation and Succession Committee in February 2006. In 2007, the Compensation and Succession Committee approved a change in the grant to the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) to the equivalent of 50% of their annual base salaries. In order to align the potential total compensation to market measures, the Compensation and Succession Committee approved respectively in 2012 and in 2013, to the Chief Executive Officer (CEO) and to the Chief Operating Officer (COO) a change to the grant to 75% and then to 120% of their annual base salaries and to the Vice-Presidents to 30% and then to 40%.

The intent of such Program to attract and assure the long-term commitment of executives by allowing them to share in the growth of the Company, thereby enhancing the sense of participation in the business. (See Item 10. Additional Information B. Memorandum and Articles of Association).

To meet the effort of aligning globally both the compensation programs and the business needs, the Human Resources team supported by the HAY Group Consultancy, expert in compensation related matters, reviewed the Long Term Compensation Program in order to tie significant part of this compensation to a long term financial metric, in this case the ROCE (Return on Capital Employed), which was submitted to and approved by the Gerdau Compensation and Succession Committee during the meeting held on April 28, 2010.

The Chief Executive Officer (CEO), the Board Members and Director positions and higher will have part of their Long Term Compensation tied to ROCE (Return on Capital Employed) calculated on a yearly basis by comparing the actual ROCE against the one foreseen in the Strategic Plan.

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In a shareholders meeting, held on September 19, 2013, changes to the Program were approved to better support the fulfillment of long term goals. These changes consisted of the inclusion of new vehicles such as Restricted Shares, Performance Shares, Differed Shares and also allowed participants to convert voluntarily until November 17, 2013, their Stock Options or Share Appreciation Rights to Restricted Shares, through a calculation methodology that assured that there would be equivalent fair value.

The fair value calculation was determined by a specialized external consultancy and the trinomial evaluation method was used. The Restricted Shares resulting from the conversion will be exercised in five equal instalments on the following schedule: December 9, 2013, March 20, 2015, March 20, 2016, March 20, 2017 and March 20, 2018.

The Compensation and Succession Committee has approved all stock option grants since the program begun. Share figures have been retroactively adjusted for all periods to reflect the bonus issue of one share for each share held in April 2004, the bonus issue of one share for every two shares held in April 2005, the bonus issue of one share for every two shares held in April 2006 and the bonus issue of one share for each share held in June 2008.

The Long Term Incentive grants distributed to the Board of Directors and Executive Committee are as follows (see Consolidated Financial Statements Note 24 for a complete summary of the stock option plans):

Exercise Price:	R$ 6,78	R$ 10,58	R$ 10,58	R$ 12,86	R$ 17,50	R$ 26,19	R$ 14,91	R$ 29,12	R$ 22,61	R$ 14,42	R$ 18,58
Grant Date:	30-dez-03	30-dez-04	30-dez-04	30-dez-05	30-dez-06	30-dez-07	30-dez-08	30-dez-09	30-dez-10	30-dez-11	30-dez-12
Vesting Date:	2-jan-09	2-jan-10	2-jan-08	2-jan-11	2-jan-12	2-jan-13	2-jan-14	2-jan-15	2-jan-16	2-jan-17	2-jan-18
Expiration Date:	30-dez-13	30-dez-14	30-dez-14	30-dez-15	30-dez-16	30-dez-17	30-dez-18	30-dez-19	30-dez-20	30-dez-21	30-dez-22
Total Options Granted to Directors and Executive Officers	595.508	515.552	258.123	1.086.037	819.369	630.703	1.189.576	968.195	628.367	897.510	846.330
Exercised Options	595.508	495.401	258.123	34.249	6.981	0	16.494	1.825	2.953	4.560	3.378
Cancelled Options	0	0	0	0	0	0	0	321.574	393.918	312.066	262.152
Balance Options	0	0	0	0	0	0	0	0	0	190.525	207.654
Options converted to Restricted Share	0	20.151	0	1.051.788	812.388	630.703	1.173.082	644.796	231.496	390.359	373.146

Grant Price:	R$ 16,58	R$ 18,36	R$ 9,65	R$ 4,29
Grant Date:	1-set-13	1-jan-14	1-jan-15	1-jan-16
Vesting Date:	31-mar-14	31-mar-15	31-mar-16	31-mar-17
Expiration Date:	31-mar-18	31-mar-19	31-mar-20	1-mar-21
Total Restricted Share (Conversion)	2.751.045	0	0	0
Exercised Restricted Share (Conversion)	2.594.317	0	0	0
Cancelled Restricted Share (Conversion)	0	0	0	0
Balance Restricte Share (Conversion)	156.728	0	0	0
Grant Restricted Share	0	202.519	361.540	1.553.413
Exercised Restricted Share	0	90.578	98.167	95.042
Cancelled Restricted Share	0	0	0	0
Balance Restricte Share	0	111.941	263.373	1.458.371
Grant Performance Share	0	754.666	1.446.960	2.163.086
Exercised Performance Share	0	82.052	883.036	14.660
Cancelled Performance Share	0	377.077	38.398	127.903

Balance Performance Share	0	295.537	525.526	2.020.523

Note 1: Vice President Manoel Vitor de Mendonça Filho resigned as administrator on November 30, 2016. On December 31, 2016, upon termination of his employment contract, he ceased to be a guest member of the Executive Committee Gerdau.

C. BOARD PRACTICES

Gerdau has a historical commitment to good corporate governance practices and to strengthening the stock markets, which is why it takes part in Level 1 of the São Paulo Stock Exchange (Bovespa) Differentiated Corporate Governance program (since 2001 in the case of Gerdau S.A. and since 2003 for Metalúrgica Gerdau S.A.).

Furthermore, the Gerdau S.A and Metalúrgica Gerdau S.A also have an information disclosure policy that defines the criteria guiding investor relations, including the announcement of relevant acts and facts. The aim is to maintain a fast and efficient flow of data while respecting the rules of secrecy and confidentiality. This policy covers controlling shareholders, officers and managers, members of the Board of Directors and Board of Auditors and any organizations or persons with technical or consultative functions which, as a result of their responsibilities, function or position, have access to information concerning the Gerdau Companies.

The structure is composed of three levels and has maintained the existing governing bodies: the Board of Directors, the Executive Committee and the Board of Officers.

Board of Directors: The Board of Directors is responsible for determining the broad direction of the Gerdau s business. The Board may have up to eleven (11) members; currently there are three independent Board members. The Board has three (3) Committees: Corporate Governance; Compensation and Succession; and Risks. According to the Ordinary General Shareholders Meeting, held on April 26, 2016, the members of the Board of Directors, whose terms of office expire on April 30, 2017, are:

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Chairman

Claudio Johannpeter (1), (2) and (3)

Member

André Bier Gerdau Johannpeter (2) and (3)

Richard Chagas Gerdau Johannpeter (1)

Affonso Celso Pastore (1) and (2)

Expedito Luz (1)

Fernando Fontes Iunes (1) and (2)

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(1) Member of the Corporate Governance Committee

(2) Member of the Compensation and Succession Committee

(3) Member of the Risk Committee

The Committees created to support the Board of Directors are:

Corporate Governance Committee: responsible for, among other functions, keeping the members updated about the trends and benchmarks of Corporate Governance; evaluating the recommendations of the agents of capital markets and financial and specialized agencies, to recommend to the Board principles and guidelines of Corporate Governance; reviewing and commenting on the information relating to Corporate Governance contained in the official documents of the Company for dissemination to the market and evaluating the performance of the Board as a whole.

Succession and Compensation Committee: its main functions are: recommend policies for selection, retention and succession of directors and strategic executives of the company; evaluate compensation plans, benefits and pensions of directors and strategic executives; review of general wage increases; general definition of global values of variable remuneration and grant of stock options; and the review and monitoring of the training programs for strategic managers and executives, suggesting alternatives to their professional development, review general HR strategies and its compensation policies; participate in the evaluation process of the members of the Executive Committee of the Company.

Risk Committee: its main duties are monitoring relevant topics, such as reviews of the status of the Sarbanes Oxley controls, adequacy of risk controls associated with each macro process and / or operation, including, but not limited to, environmental risks, enterprise security, information security, the work of internal audit on operational risks, statistics, as well as relevant Ethic and Compliance issues and legal contingencies, subject to the provisions of Policy on Risk Management published on the Company website.

Board of Executive Officers: Statutory Board whose members are responsible for the representation of the company and performance of the acts needed for the company s standard operations.

The members of the Statutory Board of Executive Officers are:

Chief Executive Officer (CEO):

André Bier Gerdau Johannpeter

Vice-Presidents:

Claudio Johannpeter

Guilherme Chagas Gerdau Johannpeter

Francisco Deppermann Fortes

Vice-President, Chief Financial officer (CFO) and Investor Relations Officer:
Harley Lorentz Scardoelli

Gerdau Executive Committee: The Gerdau Executive Committee is responsible for coordinating the activities of the executive officers and managing the Company s business, the purpose being to build on the Company s relationship with the market and ensure best corporate governance practices. This structure provides an administrative link between the Board of Directors and the Company s business operations. Its activities are divided into business operations (BOs), defined by product line and/or geographical location: BO - Brazil, BO - Special Steel Products, BO - North America and BO - South America. The Gerdau Executive Committee is also responsible for the main corporate areas that operate vertically throughout the Gerdau companies, such as finance, accounting, human resources, planning and legal. Committee members work together to encourage a greater synergy among operations, and individually with a focus on the management of each business and corporate areas in order to maximize results.

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Other Committees created to Support the Management: In order to provide support to the Executive Committee several committees were created and are responsible for advising on specific matters, as such the Disclosure Committee.

The members of the Gerdau Executive Committee are:

André Bier Gerdau Johannpeter

Claudio Johannpeter

Guilherme Chagas Gerdau Johannpeter

Francisco Deppermann Fortes

Harley Lorentz Scardoelli

Assigned member of the Gerdau Executive Committee (section 9, paragraph 9th of the Company s By-laws).

Peter John Campo

PETER JOHN CAMPO (born in 1962)

• Education: Degree in Science from Rice University (United States), holds a Ph.D. in Chemical Engineering from the California Institute of Technology (United States) and is a certified Six Sigma Master Black Belt.

• Experience: He joined Gerdau in 2008. Within the company s North American Long Steel business division, he has served as the Vice President of Procurement, Sales and Operations Planning, Vice President and General Manager of Downstream Operations, and the Vice President of Supply Chain. He was named the President of the North American Long Steel business division in April 2014, and in 2015 was promoted to Executive Vice President of North America BO and assigned member of the Gerdau Executive Committee.

Corporate Structure: Gerdau s corporate structure evolved to help the business by adding value in three ways: being guardian of the governance and brand, image and values; optimizing the efficiency of Gerdau s activities through optimization of scale and leveraging capabilities to deliver value above what individual businesses could generate autonomously. The Governance Guardian areas , such as Finance and Planning; Accounting; Com., Public Affairs, Gerdau Institute; Legal, Compliance, Corp. Security; Internal Audit and Environment, Health and Safety, protects shareholders interests and manages relevant risks to long-term sustainability. The Scale Optimizer areas, such as Information Technology; Procurement; Shared Services and Gerdau International Trade, optimize resources and

achieve economies of scale. The Advantage Accelerators areas, such as Metallics; Marketing and Sales; Industrial, Engineering; People; Innovation and Management System, exploit Gerdau´s differentiating capabilities in the Business Divisions.

All members of the Board of Directors and the Gerdau Executive Committee are elected for one-year terms, with re-election or re-appointment permitted. Members of the Board of Directors are appointed at the Ordinary General Meeting of Shareholders while members of the Gerdau Executive Committee are elected at meetings of the Board of Directors.

Advisory Board

At the Extraordinary and Ordinary General Meeting of April 29, 2015, given that the changes in the Company s Bylaws were approved, the Board of Directors installed and elected the Advisory Board (Conselho Consultivo) that began its duties on May 1, 2015.

The Advisory Board is responsible for issuing an opinion on the matters submitted thereto by the Board of Directors.

Chairman

Jorge Gerdau Johannpeter

Members

Germano Hugo Gerdau Johannpeter

Klaus Gerdau Johannpeter

Frederico Carlos Gerdau Johannpeter

Dr. Jorge Gerdau Johannpeter as Chairman, Dr. Germano Hugo Gerdau Johannpeter, Dr. Klaus Gerdau Johannpeter and Frederico Carlos Gerdau Johannpeter as Vice Presidents served as members of the Board of Directors of Gerdau until April 30, 2015.

JORGE GERDAU JOHANNPETER (born in 1936)

• Education: Degree in Law from the Universidade Federal do Rio Grande do Sul (UFRGS) in 1961.

• Experience: In May 2015, he became the Chairman of the Advisory Board of Gerdau S.A. and Metalúrgica Gerdau S.A. He has worked at Gerdau since 1954. He became an Executive Officer in 1971 and was appointed Board of Directors member in 1973. From 2002, after the implementation of new corporate governance structure, until December 2006, Jorge Johannpeter also held the position of Chief Executive Officer (CEO). From 1983 to April 2015 served as Chairman of the Board of Directors of Gerdau S.A. and its parent company

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Metalurgica Gerdau S.A., a listed company, Gerdau holding company whose core business is the manufacture of steel products in general; and Seiva S.A. - Florestas e Indústrias, company that is part of the same group of Gerdau S.A. and whose main activity is the participation in the capital of other companies. On January 2, 2007, Jorge Gerdau Johannpeter retired from the Gerdau Executive Committee and, since then and until April 2015, he served exclusively as a member of the Board of Directors as its President.

• Other activities: Member of the Economic and Social Development Council (CDES) of the Brazilian Government. Founded of the Gaucho Quality and Productivity Program (PGQP) and Brazil Competitive Movement (MBC). He is a member of the International Quality Academy, of the Brazilian Quality Academy and member of the board of the National Quality Foundation (FNQ). In the areas of education and culture, he leads the governing board of the All for Education Movement and of the Ibere Camargo Foundation, he is also member of the board of Volunteer Partners.

FREDERICO CARLOS GERDAU JOHANNPETER (born in 1942)

• Education: Degree in Business Administration from the Universidade Federal do Rio Grande do Sul (UFRGS) and has a master s degree in Business, Finance, Costs and Investments from the University of Cologne, Germany.

• Experience: In May 2015, he became a member of the Advisory Board of Gerdau S.A. and Metalurgica Gerdau S.A. He has worked at Gerdau since 1961. He became an Executive Officer in 1971, and from 1973 to 2002 served as a member of the Board of directors. In 2002, under the new corporate governance structure, he became Vice-Chairman of the Executive Committee of Gerdau S.A., a position he held until December 2006. From January 2007 until April 2015, he served as Vice Chairman of the Board of Directors of Gerdau S.A., its parent company Metalurgica Gerdau S.A. and Seiva S.A. - Florestas e Indústrias.

GERMANO HUGO GERDAU JOHANNPETER (born in 1932)

• Education: Degree in Business Administration from the Fundação Getúlio Vargas.

• Professional experience: In May 2015, he became a member of the Advisory Board of Gerdau S.A. and Metalúrgica Gerdau S.A. He has worked at Gerdau in since 1951. He became an Executive Officer in 1971, and from 1973 to 2015, he served as a member of the Board of Directors. From 2002 until April 2015, he served as Vice-Chairman of the Board of Directors of Gerdau S.A., Metalúrgica Gerdau S.A. and Seiva S.A. - Florestas e Indústrias.

KLAUS GERDAU JOHANNPETER (born in 1935)

• Education: Degree in Civil, Electrical and Mechanical Engineering for the Universidade Federal do Rio Grande do Sul (UFRGS) in 1958.

• Professional experience: In May 2015, he became a member of the Advisory Board of Gerdau S.A. and Metalúrgica Gerdau S.A. He has worked for Gerdau since 1954. He became an Executive Officer in 1971 and from 1973 to 2015, he served as a member of the Board of Directors. Until his retirement from the Executive Committee in 2007, he was the main coordinator of the technical development of Gerdau s industrial operations. From 2002 until April 2015, he served as Vice-Chairman of the Board of Directors of Gerdau S.A., Metalúrgica Gerdau S.A., and Seiva S.A. - Florestas e Indústrias. In addition, he has been the Chairman of the Gerdau Institute, the governing body of Gerdau s social projects, since it was founded in 2005.

Board of Auditors

Under Brazilian Corporate Law, the board of auditors (Conselho Fiscal) is a shareholder nominated audit board and an independent corporate body of the board of directors, management and the company s external auditors. The board of auditors has not typically been equivalent to or comparable with a U.S. audit committee; its primary responsibility has been to monitor management s activities, review the financial statements, and report its findings to the shareholders.

Pursuant to an exemption under Section 10A-3 of the SEC rules concerning the audit committees of listed companies, a foreign private issuer (such as the Company) doesn t need to have a separate audit committee composed of independent members if it has a Board of Auditors established and selected pursuant to its home country s legal or listing provisions expressly requiring or permitting such a board and if such a board meets certain requirements. Pursuant to this exemption, a board of auditors can exercise the required duties and responsibilities of an U.S. audit committee to the extent permissible under Brazilian Corporate Law. To comply with the SEC rules, the Board of Auditors must meet the following standards: it must be separate from the full board of directors, its members must not be elected by management, no executive officer may be a member, and Brazilian law must set forth standards for the independence of the members. In order to qualify for exemption, the Board of Auditors must, to the extent permitted by Brazilian law:

- be responsible for the appointment, retention, compensation and oversight of the external auditors (including the resolution of disagreements between management and the external auditors regarding financial reporting);

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- be responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- have the authority to engage independent counsel and other advisors as deemed necessary, to carry out its duties; and

- receive appropriate funding from the Company for payment of compensation to the external auditors, for any advisors and ordinary administrative expenses.

As a foreign private issuer, the Company decided to modify its Board of Auditors to comply with the exemption requirements. Accordingly, the Ordinary General Meeting of Shareholders held on April 28, 2005, amended the Company s by-laws to modify the duties of the Board of Auditors and the Board of Directors, and, on the same date approved the delegation of certain additional responsibilities to the Board of Auditors. The Board of Auditors operates pursuant to a charter (regimento interno) that contemplates the activities described above to the extent permitted by Brazilian Law and is compliant with the requirements of the Sarbanes-Oxley Act, the pertinent regulations, and the requirements of the New York Stock Exchange and the Board of Auditors.

Because Brazilian Corporate Law does not permit the board of directors to delegate responsibility for the appointment, retention and compensation of the external auditors and does not provide the board or the board of auditors with the authority to resolve disagreements between management and the external auditors regarding financial reporting, the board of auditors cannot fulfill these functions. Therefore, in addition to its oversight responsibilities, the board of auditors may only make recommendations to the board of directors with respect to the appointment, retention and compensation of the external auditors. Likewise, the board of auditors may only make recommendations to management and the board with regard to the resolution of disagreements between management and the external auditors. This limited scope of authority is a key difference between the board of auditors and the customary authority of an audit committee as a full committee of the board of directors.

Under Brazilian Corporate Law, members of the board of auditors of a company are not allowed to be members of the board of directors, hold executive office, or be employed in any other position within that of the company or its subsidiaries or controlled companies. In addition, a member of the board of auditors cannot be spouse or relative of any member of the company s management. The Brazilian Corporate Law requires that members of the board of auditors receive a remuneration at least 10% of the average amount paid to each executive officer; and, also, that a board of auditors be composed of a minimum of three and a maximum of five members and their respective alternates.

As part of the adaptation of its Board of Auditors to the regulations, the Company has installed a permanent (standing) Board of Auditors currently composed of five members and their alternates who are elected at the Ordinary General Meeting of Shareholders with term of office to run until the next Ordinary General Meeting of Shareholders following their election, reelection being permitted. Under Brazilian Corporate Law, holders of Preferred Shares have the right to elect through a separate vote, one member of the board of auditors to represent their interests. Likewise, minority groups of shareholders with voting shares also have the right to elect one member of the board of auditors through a separate vote. However, irrespective of circumstances, the common shareholders have the right to elect the majority of the members of the board of auditors. Set forth below are the names, ages and positions of the members of the Company s Board of Auditors and their respective alternates, since April 29, 2015.

Name	Birthday	Member Position	Year First Elected
Bolívar Charneski	08/22/1950	Effective	2011
Geraldo Toffanello	10/12/1950	Effective	2014
Carlos Roberto Schröder	02/19/1940	Effective	2015
Hayton Jurema Da Rocha	26/02/1958	Effective	2016
Vanessa Claro Lopes	11/01/1976	Effective	2016
Domingos Matias Urroz Lopes	11/26/1937	Alternate	2015
Artur Cesar Brenner Peixoto	09/29/1942	Alternate	2014
Pedro Floriano Hoerde	07/16/1937	Alternate	2015
Nilo Jose Panazzolo	19/11/1955	Alternate	2016
Fernando Dal-Ri Murcia	16/07/1977	Alternate	2016

The Shareholder s Ordinary Meeting has determined that Bolívar Charneski is an audit committee financial expert within the meaning of the rules adopted by the SEC concerning the disclosure of financial experts. Each member of the Board of Auditors has acquired significant financial experience and exposure to accounting and financial issues.

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BOLÍVAR CHARNESKI (born in 1950)

• Education: Degree in Accounting in 1974 and participant in a professional exchange program in Price Waterhouse, in Atlanta, GA USA.

• Professional experience: Founder and partner since 1988 of Charneski Contadores Associados (up to 2009, Charneski Auditores & Consultores), a company settled in Porto Alegre (RS), where he was technically responsible for independent auditing and consulting services. Since 2009 dedicates to advising companies and organizations in the fields of Governance, Boards, Management, Accounting and Tax. Fiscal Council member (assigned as Financial Expert for SOX purposes) of Gerdau S.A. since 2011. Board member certified by Instituto IBGC Instituto Brasileiro de Governança Corporativa (Brazilian Corporate Governance Institute), where he acted as a member of the Coordination Committee of the South Chapter. Advisory Board Member of family-owned companies. He was acting Partner (1st elected in Brazil) of Price Waterhouse (1971-1988), where he was also one of the founders of the Accounting and Audit Commission. Former director in various management terms of the IBRACON Instituto dos Auditores Independentes do Brasil (Brazilian Institute of Independent Auditors), having presided over the 6th Regional Section and serving twice as Director of IBRACON in the national level. Fiscal Council member of Grendene SA from 2011 to 2013. Fiscal Council member of Forjas Taurus S.A. from 1998 to 2007. Author of articles about business and economic scenarios, corporate governance, management, accounting and tax.

GERALDO TOFFANELLO (born in 1950)

• Education: Degree in accounting from Faculdade Porto-Alegrense de Ciências Contábeis e Administrativas and Postgraduate education in Accounting from the Universidade Federal do Rio Grande do Sul (UFRGS).

• Experience: He started his career at Gerdau in 1970, as tax bookkeeping assistant, promoted later to manager of the Tax Accounting area. He also served as manager of Accounting and Bookkeeping in Sapucaia do Sul. In 1980, he was transferred to Gerdau Açonorte, as the Accountant responsible for the northeast region companies, being promoted to Accounting Manager of this regional office in 1981. In 1983, he returned to Gerdau in Porto Alegre/RS to work at the Accounting department and also at the holding company. In 1984, he was promoted to General Manager of Accounting and Internal Audit, serving in the corporate areas of these two processes. In 1988, he was promoted to Accounting Director and later served as Accounting Director a position he held until retiring in 2012. In 2013, he became a Fiscal Council member of Dimed S.A., member of the Board of Directors of Puras FO and Founding Partner of Empresa Luzes do Mundo Ltda.

CARLOS ROBERTO SCHRODER (born in 1940)

• Education: Degree in Accounting from the Universidade Federal do Rio Grande do Sul (UFRGS) in 1968.

• Experience: He worked in the following companies: (i) Petróleo Brasileiro S.A. - PETROBRAS, a listed company whose main activity is the prospecting, extraction, refining, processing, trade and transport of oil from wells, shale and other rocks, its derivatives, natural gas and other fluid hydrocarbons, as Head of Cost Sector from 1966 to 1971; (ii) Siderúrgica Riograndense S.A., from 1971 to 1973 as Assistant at Cost Department, and from 1973 to 1976 as Chief Accountant; (Iii) Metalurgica Gerdau S.A., from 1973 to 1976 as Chief Accountant; (Iv) Companhia Siderurgica da Guanabara - Cosigua, former name of Gerdau S.A. from 1977 to 1981 as Accounting Manager; (v) Gerdau Group and Siderúrgica Laisa S.A. - Uruguay from 1981 to 1983 as Accounting Manager; (vi) Siderúrgica Riograndense S.A. and Siderurgica Guaira S.A., from 1983 to 1989 as Administrative and Accounting Director; (vii) Usina Siderúrgica da Bahia S.A. - Usiba, 1989-1996, as Executive Director; (viii) Siderrúrgica Açonorte S.A., Usina Siderúrgica da Bahia S.A. - Usiba and Usina Siderúrgica Cearense S.A., from 1996 to 1998, as Executive Director.

HAYTON JUREMA DA ROCHA (born in 1958)

- Education: B.A. in Economics (Universidade Federal de Alagoas), post graduate degree in Business Management (Universidade Federal de Pernambuco) and specialization in Marketing (IAG - Business School of PUC Rio de Janeiro).

- Experience: Has been working at Banco do Brasil since 1977. In the past five years, was President of CASSI - Assistance Fund of the Bank of Brazil Employees, the largest operator of health plans in the country, in the self-management mode, a position he held until January 2012; and Director of Marketing and Communications until November 2014. He is currently Special Advisor to the President. His main experience in statutory boards includes, in recent years, having been a member of the Supervisory Board of CELESC and WEG S.A., and since May 2016 member of the Fiscal Council of Gerdau S.A.

VANESSA CLARO LOPES (born in 1976)

- Education: Degree in Accounting from Universidade Federal Fluminense (UFF) and in System Analysis from FATEC, with specialization in Business Management from EAESP FGV and in Computer Networks. Currently a Master´s Degree Candidate in Management Systems at UFF.

- Experience: She was previously Head of Corporate Internal Audit at TAM S.A. and Head of Internal Audit at Globex Utilidades S.A. Began her career at PwC Brazil in System Audit Team, having been responsible for the creation of the Group of Consultants for Telecom Network Services. She was responsible for the audit teams at Telefonica Group. Vanessa was professor of IT Systems and Information Security at Faculdade Objetivo. She is currently (i) Chairman of the Fiscal Council of Via Varejo S.A., (ii) Coordinator of the Audit Committee of Tegma Logística S.A., (iii) member of the Fiscal Council of Vanguarda Agro S.A. and (iv) member of the Fiscal Council of Gerdau S.A.

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D. EMPLOYEES

Direct	Brasil	Overseas	Total
2011	23.516	19.304	42.820
2012	22.658	19.211	41.869
2013	22.278	19.337	41.615
2014	20.169	19.892	40.061
2015	16.495	18.650	35.145
2016	14.960	15.054	30.014

Outsourced*	Brasil	Overseas	Total
2011	7.734	3.799	11.186
2012	8.147	3.303	11.450
2013	7.637	4.128	11.765
2014	6.583	4.201	10.784
2015	5.406	3.461	8.867
2016	4.992	2.970	7.962

*Outsourced corresponds to employees of third-party service providers of Gerdau which provide, as employees of those providers, services directly to Gerdau in areas that are not the core business of Gerdau.

As of December 31, 2016, the Company employed 30.014 at its industrial units, excluding jointly controlled entities, 50% of this total is based in Brazil and the remainder in South America, North America and India, which have 4,690, 9.536, and 828 employees, respectively.

As labor unions in Brazil and other Countries in Latin America and Europe are organized on a regional basis, the Company has no nationwide agreements with its employees. 32% of Gerdau employees are unionized.

Gerdau maintains good working conditions at its mills and consequently has what it believes to be a comparatively low employee turnover rate.

Gerdau maintain good relations with employees. To maintain such good working environment, the company provides development and training opportunities, team-building programs and transparent management system. Compensation programs are designed to meet employee s financial interests with those of Gerdau shareholders.

E. STOCK OWNERSHIP

The following table shows the individual holdings of shares in preferred and common stock in Gerdau S.A. for each director and executive officer as of January 31, 2017.

Shareholder	Common Shares (with voting rights)	%	Preferred Shares (with restricted voting rights)	%
Claudio Johannpeter	38,435	0.01	158,858	0.01
André Bier Gerdau Johannpeter	23,885	0.00	348,395	0.03
Richard Chagas Gerdau Johannpeter			1,342	0.00
Expedito Luz			11,883	0.00
Affonso Celso Patore			20,948	0.00
Fernando Fontes Iunes			324	0.00
Guilherme Chagas Gerdau Johannpeter			97,246	0.01
Harley Lorentz Scardoelli			6,571	0.00
Francisco Deppermann Fortes			40,841	0.00
TOTAL	**62,320**	**0.01**	**686,408**	**0.60**

The Company has different employee stock option plans for each of its subsidiaries. See NOTE 25 Long-Term Incentive Plans in its consolidated financial statements included herein for further details.

The following table shows the remaining vested options, the restricted shares resulted from the stock option conversion and 2013, 2014, 2015 and 2016 awards (all Gerdau S.A. preferred shares) to each director and executive officer until January 31, 2017.

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	Stock Options				Restricted Share Units				Performance Share Units			
Names	**Grant**	**Exercised**	**Cancelled**	**Balance**	**Grant**	**Exercised**	**Cancelled**	**Balance**	**Grant**	**Exercised**	**Cancelled**	**Balance**
Jorge Gerdau Johannpeter	**320.386**	**0**	**320.386**	**0**	**634.776**	**634.776**	**0**	**0**	**463.850**	**335.814**	**128.036**	**0**
Germano H G Johannpeter	**191.881**	**0**	**191.881**	**0**	**544.672**	**544.672**	**0**	**0**	**226.236**	**163.847**	**62.389**	**0**
Klaus Gerdau Johannpeter	**191.881**	**0**	**191 .881**	**0**	**544.672**	**544.672**	**0**	**0**	**226.236**	**163.847**	**62.389**	**0**
Frederico C G Johannpeter	**281.485**	**0**	**281.485**	**0**	**607.488**	**607.488**	**0**	**0**	**391.180**	**283.216**	**107.964**	**0**
Claudio Johannpeter	**185.976**	**0**	**88.735**	**97.241**	**798.234**	**116.284**	**0**	**681.950**	**1.015.581**	**0**	**0**	**1.015.581**
Affonso Celso Pastore	**28.929**	**0**	**10.074**	**18.855**	**81.506**	**30.437**	**0**	**51.069**	**48.049**	**0**	**653**	**47.396**
Andre Bier Johannpeter	**231.1 58**	**0**	**93.065**	**138.093**	**943.026**	**126.375**	**0**	**816.651**	**1.240.671**	**0**	**0**	**1.240.671**
Manoel Vitor de M Filho	**43.555**	**0**	**43.555**	**0**	**174.187**	**174.187**	**0**	**0**	**214.971**	**33.024**	**181.947**	**0**
Expedito Luz	**41.319**	**0**	**11.934**	**29.385**	**94.876**	**25.957**	**0**	**68.919**	**56.229**	**0**	**0**	**56.229**
Francisco D Fortes	**33.027**	**0**	**7.569**	**25.458**	**133.652**	**23.309**	**0**	**110.343**	**165.810**	**0**	**0**	**165.810**
Guilherme Gerdau Johannpeter	**109.759**	**12.716**	**19.478**	**77.565**	**192.985**	**41.287**	**0**	**151.698**	**227.761**	**0**	**0**	**227.761**
Harley Lorentz Scardoelli	**16.987**	**0**	**5.405**	**11.582**	**68.645**	**8.659**	**0**	**59.986**	**88.138**	**0**	**0**	**88.138**
Fernando Fontes Iunes	**0**	**0**	**0**	**0**	**23.219**	**0**	**0**	**23.219**	**0**	**0**	**0**	**0**
Richard Gerdau Johannpeter	**0**	**0**	**0**	**0**	**26.579**	**0**	**0**	**26.579**	**0**	**0**	**0**	**0**
Total	**1.676.343**	**12.716**	**1.265.448**	**398.179**	**4.868.517**	**2.878.104**	**0**	**1.990.413**	**4.364.712**	**979.748**	**543.378**	**2.841.586**

Note 1: Vice President Manoel Vitor de Mendonça Filho resigned as administrator on November 30, 2016. On December 31, 2016, upon termination of his employment contract, he ceased to be a guest member of the Executive Committee Gerdau.

The information of exercise price, grant date, vesting date and expiration date are available in the stock option table in the item 6.B Compensation.

The Extraordinary Shareholders Meeting held on September 19, 2013 approved the amendment to the Preferred Stock Option Plan, allowing participants to convert their Stock Options already granted but not yet exercised into Restricted Shares in which restriction in this case is the vesting period. Said conversion was based on the fair value of the option calculated by an independent consulting firm. Bloomberg was contracted to perform the equivalence calculation.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of January 31, 2017, Gerdau S.A. had 571,929,945 common shares and 1,135,833,935 non-voting preferred shares outstanding (excluding treasury stock). Of the two classes of stock traded in the market, only the common stock carries voting rights. Under the terms of the Company s bylaws, however, specific rights are assured to the non-voting preferred stock. See the bylaws of Gerdau S.A. attached to this Annual Report.

The table below presents certain information as of January 31, 2017, regarding (i) any person known to the Company as the owner of more than 5% of Gerdau S.A. s outstanding common stock, (ii) any person known to the Company as the owner of more than 5% of Gerdau S.A. s outstanding preferred stock, and (iii) the total amount of the common and preferred stock owned by the members of the board of directors and executive officers of the Gerdau S.A. as a group.

Shareholder	Common Shares	%	Preferred Shares	%
Metalúrgica Gerdau S.A.	449,712,654	78.40	202,806,575	17.70
Banco BTG Pactual S.A.	34,209,522	5.96		
Members of the board of directors and executive officers as a group (9 members)	62,320	0.01	686,408	0.60

Metalúrgica Gerdau S.A. is a holding company that directly and indirectly controls all Gerdau companies in Brazil and abroad. Metalúrgica Gerdau and its subsidiaries hold 78.40% of the voting capital stock of Gerdau S.A. and thus have the ability to control the Company s Board of Directors as well as its management and operations.

On January 31, 2017 there were 322,372,678 ADRs outstanding, representing 28.1% of Gerdau S.A. preferred shares and the number of record holders were 37.

B. RELATED-PARTY TRANSACTIONS

The Company s transactions with related parties consist of (i) loans, (ii) commercial operations and (iii) the payment of guarantees to some controlling companies. See Note 18 to the Consolidated Financial Statements (Related Party Transactions) for further information.

(i) Gerdau S.A. maintains loans with some of its subsidiaries and other affiliates through loan contracts, which are repaid under conditions similar to those prevailing in the open market. Loan agreements between Brazilian companies are adjusted by the

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monthly variation in the CDI (interbank deposit rate). The agreements with foreign companies are adjusted by contracted charges plus foreign exchange variation, when applicable.

(ii) Commercial operations between Gerdau S.A. and its subsidiaries or related parties basically consist of transactions involving the purchase and sale of inputs and products. These transactions are carried out under the terms and conditions established in the contract between the parties and under prevailing market conditions. The commercial operations include payments relating to loan guarantees.

(iii) The Company holds marketable securities in investment funds managed by a related-party bank. These marketable securities comprise time deposits and debentures issued by major Brazilian banks and treasury bills issued by the Brazilian government.

(iv) The Company pays a fee of 0.95% per year for debt guaranteed by a controlling related-party company.

The Company s transactions with related parties are presented below:

Item	INTRA-GROUP AGREEMENTS Purpose of the Agreement	Relationship with issuer	Original Amount In thousands of R$	Original Amount Date	Maturity or Deadline	Termination or extinction conditions	Outstanding Amount December 31, 2016	Outstanding Amount Largest amount during the period covered
1	Guarantee granted to Gerdau Corsa S.A.P.I. de C.V., co-borrower of a global credit line, to finance working capital, in the amount of up to US$20,000,000.00, equivalent in MXN.	Jointly-controlled entity	68,708	12/06/2016	Jan-17	Settlement of the agreement	65,182	65,182
2	Guarantee granted to Gerdau Corsa S.A.P.I. de C.V. in financing with the Banco Latinoamericano e Comércio Exterior in the amount of up to US$40,000,000.00 at the date of the agreement.	Jointly-controlled entity	129,724	09/02/2016	Mar-17	Settlement of the agreement	8,206	8,812
3	Guarantee granted to Gerdau Corsa S.A.P.I. de C.V., co-borrower of a global credit line, to finance working capital, in the amount of up to US$86,000,000.00, equivalent in MXN.	Jointly-controlled entity	291,772	11/23/2016	May-17	Settlement of the agreement	280,283	292,116
4	Guarantee granted to Gerdau Aços Longos S.A. in a purchase and sale agreement with Duke Energy International, Geração Paranapanema S.A., in the current amount of R$39,485,940.00.	Subsidiary	39,485	05/18/2016	May-17	Settlement of the agreement	39,486	39,486
5	Guarantee granted to Siderúrgica Zuliana, C.A., in financing from Citibank up to US$20,000,000.00 at the date of the agreement.	Subsidiary	66,680	12/13/2016	Jun-17	Settlement of the agreement	65,182	65,182
6	Guarantee granted to Diaco S.A. in financing from Banco BBVA	Subsidiary	123,016	05/03/2015	Jun-17	Settlement of the agreement	11,086	19,211

	Colombia in the amount of up to US$40,000,000.00 at the date of the agreement. No remuneration.							
7	The Company is the guarantor of subsidiary Sipar Aceros S.A., in a financing granted by Citibank in the amount of up to ARS 50,000,000.00 equivalent to US$6,2 million.	Subsidiary	15,154	06/27/2014	Jun-17	Settlement of the agreement	2,336	9,734
8	Guarantee granted to Gerdau Corsa S.A.P.I. de C.V. in financing from Bank of America in the amount of up to US$30,000,000.00 at the date of the agreement.	Jointly-controlled entity						