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	