

GERDAU S.A.
Form 20-F
March 31, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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)

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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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Table of Contents

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, 2014 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.

Yes 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.

Yes 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.

Yes 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).

Yes 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

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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.

Item 17 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).

Yes No

Table of Contents

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	1
<u>PART I</u>	2
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	2
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
<u>ITEM 3. KEY INFORMATION</u>	3
<u>ITEM 4. COMPANY INFORMATION</u>	14
<u>ITEM 4A. UNRESOLVED SEC STAFF COMMENTS</u>	52
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	52
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	84
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u>	95
<u>ITEM 8. FINANCIAL INFORMATION</u>	98
<u>ITEM 9. THE OFFER AND LISTING</u>	102
<u>ITEM 10. ADDITIONAL INFORMATION</u>	108
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK</u>	123
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	125
<u>PART II</u>	125
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	125
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	126
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	126
<u>ITEM 16. [RESERVED]</u>	127
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	127
<u>ITEM 16B. CODE OF ETHICS</u>	127
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	127
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	128
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	128
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	129
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	129
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	130
<u>PART III</u>	130
<u>ITEM 17. FINANCIAL STATEMENTS</u>	130
<u>ITEM 18. FINANCIAL STATEMENTS</u>	130
<u>ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS</u>	130

Table of Contents

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 are to 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 joint venture), 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, Latin America, North America and Europe, excluding our joint venture 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;

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(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 BO means Brazil Business Operation, North America BO means North America Business Operation, Latin America BO means Latin America Business Operation, Specialty Steel BO means Specialty Steel Business Operation and Iron Ore BO means Iron Ore Business Operation.

(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 for 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 Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, 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 the holding company Corporacion Centroamericana del Acero S.A., in which the Company holds a 30% stake, which in turn holds the capital stock of Aceros de Guatemala S.A., in Guatemala, 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.

Table of Contents

Unless otherwise indicated, all information in this Annual Report is stated as of December 31, 2014. Subsequent developments are discussed in Item 8.B - Financial Information - Significant Changes.

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;

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- 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.

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.

Table of Contents**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, and is qualified in its entirety by, the IFRS financial statements of the Company and Operating and Financial Review and Prospects appearing elsewhere in this Annual Report. The consolidated financial data of the Company as of and for each of the years ended on December 31, 2014, 2013, 2012, 2011 and 2010 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)				
	2014	2013	2012	2011	2010
NET SALES	42,546,339	39,863,037	37,981,668	35,406,780	31,393,209
Cost of sales	(37,406,328)	(34,728,460)	(33,234,102)	(30,298,232)	(25,873,476)
GROSS PROFIT	5,140,011	5,134,577	4,747,566	5,108,548	5,519,733
Selling expenses	(691,021)	(658,862)	(587,369)	(603,747)	(551,547)
General and administrative expenses	(2,036,926)	(1,953,014)	(1,884,306)	(1,797,937)	(1,805,914)
(Impairment) Reversal of impairment of assets	(339,374)				336,346
Gains in joint-venture operations	636,528				
Other operating income	238,435	318,256	244,414	195,015	207,320
Other operating expenses	(150,542)	(140,535)	(180,453)	(85,533)	(100,840)
Equity in earnings (losses) of unconsolidated companies	101,875	54,001	8,353	62,662	39,454
INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	2,898,986	2,754,423	2,348,205	2,879,008	3,644,552
Financial income	276,249	292,910	316,611	455,802	295,563
Financial expenses	(1,397,375)	(1,053,385)	(952,679)	(970,457)	(1,097,633)
Exchange variations, net	(476,367)	(544,156)	(134,128)	51,757	104,364
Gains and losses on financial instruments, net	36,491	2,854	(18,547)	(65,438)	12,392
INCOME BEFORE TAXES	1,337,984	1,452,646	1,559,462	2,350,672	2,959,238
Current	(571,926)	(318,422)	(316,271)	(519,843)	(642,306)
Deferred	722,315	559,478	253,049	266,747	140,447
Income and social contribution taxes	150,389	241,056	(63,222)	(253,096)	(501,859)
NET INCOME	1,488,373	1,693,702	1,496,240	2,097,576	2,457,379
ATTRIBUTABLE TO:					
Owners of the parent	1,402,873	1,583,731	1,425,633	2,005,727	2,142,488

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Non-controlling interests	85,500	109,971	70,607	91,849	314,891
	1,488,373	1,693,702	1,496,240	2,097,576	2,457,379
Basic earnings per share in R\$					
Common	0.82	0.93	0.84	1.22	1.50
Preferred	0.82	0.93	0.84	1.22	1.50
Diluted earnings per share in R\$					
Common	0.82	0.93	0.84	1.22	1.50
Preferred	0.82	0.93	0.84	1.22	1.50
Cash dividends declared per share in R\$					
Common	0.25	0.28	0.24	0.35	0.44
Preferred	0.25	0.28	0.24	0.35	0.44
Weighted average Common Shares outstanding during the year (1)					
	571,929,945	571,929,945	571,929,945	550,305,197	494,888,956
Weighted average Preferred Shares outstanding during the year (1)					
	1,132,483,383	1,129,184,775	1,130,398,618	1,092,338,207	930,454,530
Number of Common Shares outstanding at year end (2)					
	573,627,483	573,627,483	573,627,483	573,627,483	505,600,573
Number of Preferred Shares outstanding at year end (2)					
	1,146,031,245	1,146,031,245	1,146,031,245	1,146,031,245	1,011,201,145

Table of Contents

(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.

Table of Contents

	2014	2013	On December 31, 2012	2011	2010
	(Expressed in thousands of Brazilian Reais - R\$)				
Balance sheet selected information					
Cash and cash equivalents	3,049,971	2,099,224	1,437,235	1,476,599	1,061,034
Short-term investments (1)	2,798,834	2,123,168	1,059,605	3,101,649	1,115,461
Current assets	20,682,739	18,177,222	16,410,397	17,319,149	12,945,944
Current liabilities	7,772,796	7,236,630	7,823,182	6,777,001	5,021,900
Net working capital (2)	12,909,943	10,940,592	8,587,215	10,542,148	7,924,044
Property, plant and equipment, net	22,131,789	21,419,074	19,690,181	17,295,071	16,171,560
Net assets (3)	33,254,534	32,020,757	28,797,917	26,519,803	20,147,615
Total assets	63,042,330	58,215,040	53,093,158	49,981,794	42,891,260
Short-term debt (including Current Portion of Long-Term Debt)	2,037,869	1,810,783	2,324,374	1,715,305	1,577,968
Long-term debt, less current portion	17,148,580	14,481,497	11,725,868	11,182,290	12,360,056
Debentures - short term		27,584	257,979	41,688	115,069
Debentures - long term	335,036	386,911	360,334	744,245	616,902
Equity	33,254,534	32,020,757	28,797,917	26,519,803	20,147,615
Capital	19,249,181	19,249,181	19,249,181	19,249,181	15,651,352

(1) Includes held for trading and available for sale.

(2) Total current assets less total current liabilities.

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

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-2015 (through March 26)	3.1915	3.1250	3.2683	2.8655
February-2015	2.8782	2.8165	2.8811	2.6894
January-2015	2.6623	2.6328	2.7023	2.5754
December-2014	2.6562	2.6394	2.7403	2.5607
November-2014	2.5601	2.5484	2.6136	2.4839
October - 2014	2.4442	2.4483	2.5341	2.3914
September - 2014	2.4510	2.3329	2.4522	2.2319
2014	2.6562	2.3547	2.7403	2.1974
2013	2.3426	2.1601	2.4457	1.9528

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2012	2.0435	1.9550	2.1121	1.7024
2011	1.8758	1.6746	1.9016	1.5345
2010	1.6662	1.7593	1.8811	1.6554

Dividends

The Company's total authorized capital stock is composed of common and preferred shares. As of December 31, 2014, the Company had 571,929,945 common shares and 1,132,613,562 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 2010. 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.

Table of Contents

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 2010 (1)	05/06/2010	0.1200	0.0654
2st Quarter 2010	08/05/2010	0.1400	0.0798
3st Quarter 2010 (1)	11/05/2010	0.1200	0.0714
4st Quarter 2010	03/03/2011	0.0600	0.0363
1st Quarter 2011	05/05/2011	0.0600	0.0370
2nd Quarter 2011 (1)	08/04/2011	0.0900	0.0571
3rd Quarter 2011	11/10/2011	0.1200	0.0681
4th Quarter 2011	02/15/2012	0.0800	0.0466
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)	05/30/2014	0.0700	0.0312
2nd Quarter 2014	08/21/2014	0.0600	0.0265
3rd Quarter 2014 (1)	11/27/2014	0.0500	0.0199
4th Quarter 2014	03/26/2015	0.0700	0.0219

(1) Payment of interest on equity.

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 .

Gerdaul has a Dividend Reinvestment Plan (DRIP), a program that allows the holders of Gerdaul ADRs to reinvest dividends to purchase additional ADRs in the Company, with no issuance of new shares. Gerdaul 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

The Company may not successfully integrate its businesses, management, operations or products, or achieve any of the benefits anticipated from future acquisitions.

Over the years, the Company has expanded its presence mainly through acquisitions in the North American, Latin American, European and Asian markets. The integration of the business and opportunities stemming from entities recently acquired and those that may be acquired by the Company in the future may involve risks. The Company may not successfully integrate acquired

Table of Contents

businesses, managements, operations, products and services with its current operations. The diversion of management's attention from its existing businesses, as well as problems that can arise in connection with the integration of the new operations may have an impact on revenue and operating results. The integration of acquisitions may result in additional expenses that could reduce profitability. The Company may not succeed in addressing these risks or any other problems encountered in connection with past and future acquisitions.

All these acquisitions generated goodwill, which is stated in the Company's balance sheet. The Company evaluates the recoverability of this goodwill on investments annually and uses accepted market practices, including discounted cash flow for business segments which have goodwill. A downturn in the steel market could negatively impact expectations for futures earnings, leading to the need to recognize an expense in its statement of income regarding the impairment in goodwill.

The Company may be unable to reduce its financial leverage, which could increase its cost of capital, in turn adversely affecting its financial condition or operating results.

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 the beginning of December 2011, Moody's assigned the Investment Grade rating Baa3 for all of Gerdaus ratings, with a stable perspective. Since then, Gerdaus has the Investment Grade of the three principal rating agencies: Fitch Ratings, Moody's and Standard & Poor's.

The efforts to maintain operating cash generation and to reduce the indebtedness level helped the Company to maintain its credit risk, so that in 2014 the three agencies have issued reports reiterating the investment grade rating, with a stable outlook.

A reduction in operating cash flow or an increase in the Company's debt may result in loss of its Investment Grade rating, which in turn could increase its cost of capital and adversely affect its financial condition and operating results.

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 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 and ADSs;

- 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
- Pursuant to the Company's financial agreements, the penalty for non-compliance with prescribed financial covenants can lead to a declaration of default by the creditors of the relevant loans. Furthermore, R\$ 15.4 billion of the Company's total indebtedness as of December 31, 2014 was subject to cross-default provisions, with threshold amounts varying from US\$10.0 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.

Under the terms of its existing indebtedness, the Company is permitted to incur additional debt in certain circumstances but doing so could increase the risks described above.

Unfavorable outcomes in 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 Item 8.A. *Legal Proceedings* and in Note 17 to the consolidated financial statements comprising part of this Annual Report on 20-F. Among the material matters for which no reserve has been established are the following:

- The Company and its subsidiary, 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*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R\$997 million.
- The Company and its subsidiaries, Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are part in legal proceedings discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits (*Contribuição Social sobre o Lucro - CSLL*) over profits generated abroad, in the amount of R\$1,386 million.

- The Company's subsidiaries, Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., have administratively challenged the disallowance of the deductibility of a premium generated through a corporate reorganization in 2005, in accordance with articles 7 and 8 of Law no. 9532/97. The premium was deducted from the tax bases of the income tax and social contribution on profits in the 2005-2010 period. The total updated amount under discussion is R\$3,408 million.

If unfavorable decisions are rendered in one or more of these lawsuits, we could be required to pay substantial amounts, which could materially adversely affect our results of operations, cash flows and financial condition.

Unexpected equipment failures may lead to production curtailments or shutdowns.

The Company operates several steel plants in different sites. Nevertheless, interruptions in the production capabilities at the Company's principal sites would increase production costs and reduce shipments and earnings for the affected period. In addition to periodic equipment failures, the Company's facilities are also subject to the risk of catastrophic loss due to unanticipated events such

Table of Contents

as fires, explosions or violent weather conditions. The Company's manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect the Company's productivity and results of operations. Moreover, any interruption in production capability may require the Company to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. The Company'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 materially 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 the 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 the Company's properties may cease to be profitable and that the money spent on exploration and development may never be recovered.

Our mineral resource estimates 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.

Estimates of mineralized material are based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

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

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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.

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

The Company is investing 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;

Table of Contents

- 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.

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 technological processes

arising during the life of a project may result in delays and cost overruns that may render the project not economically feasible.

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.

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

If the Company decides to make a capital increase through issuance of securities, there may be a dilution of the interest of the non-controlling shareholders in the current composition of the Company's capital.

Participation in other activities related to the steel industry may conflict with the interest of subsidiaries and affiliates.

Through its subsidiaries and affiliates, the Company also engages in other activities related to production and sale of steel products, including reforestation projects; power generation; production of coking coal, iron ore and pig iron; and fab shops and downstream operations. Having the management control in these companies, the Company's interests may conflict with the interest of these subsidiaries and affiliates.

Table of Contents

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 in 2014 (in volume), 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 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.

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, as well as Siderperu mill, in Peru. Iron ore is also used to produce sponge iron at the Usiba mill in the state of Bahia.

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 Operation. 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 state of Minas Gerais, Brazil. To reduce the exposure to iron ore price volatility, the Company invested in the expansion of the production capacity of these mines, and at the end of 2012, reached 100% of the iron ore requirements of 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 and Colombia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Ouro Branco mill, and an increase in prices could reduce profit margins. The Company does not have relevant long-term supply contracts for the raw materials it uses.

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 the Company's mills and power rationing or shortages could adversely affect production at those units.

Given the current situation of possible electricity rationing in Brazil, the Company has the option to ramp up crude steel production at the Ouro Branco mill, which internally generates around 70% of its electricity needs, using the gases produced during steel production. As a result, the mill's exposure to the electricity market is much lower than that of mini-mills. Consequently, a part of the production of steel through mini-mills could be transferred to the Ouro Branco mill, which accounts for about 50% of Brazil's crude steel production capacity.

Natural gas is used in the reheating furnaces of the Company's rolling mills. In the case of shortages in the supply of natural gas, the Company could in some instances use fuel oil, diesel or LPG.

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

Table of Contents

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 economic downturn and unprecedented 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, mainly in the U.S. economy.

If the Company is not able to remain competitive in these shifting markets, our profitability, margins and income may be negatively affected. Although the demand for steel products has experienced a gradual improvement in recent years, no assurance can be given that these improvements will continue. A decline in this trend could result in a decrease in Gerdau shipments and revenues.

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 operating results 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. These and other developments in Brazil's economy and government policies may adversely affect the Company and its business.

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

Brazil has experienced high inflation in the past. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA). Inflation measured by the IPCA index was 5.8% in 2012, 5.9% in 2013 and 6.4% in 2014. If Brazil were to experience 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 to the cost of servicing the Company's debt denominated in Brazilian

Table of Contents

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 its business.

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 operating results 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.

Significant 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.

For example, the North America Business Operation 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 operating results. 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 8.9% in 2012. By the end of 2013 the Brazilian *real* had depreciated 14.6% against the U.S. dollar and in December of 2014 it recorded depreciation of 13.4%.

Depreciation in the Brazilian *real* in relation to the U.S. dollar could also result in additional inflationary pressures in Brazil, by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, depreciation in the Brazilian *real* could weaken investor confidence in Brazil.

The Company held debt denominated in foreign currency, mainly U.S. dollars, in an aggregate amount of R\$ 15.7 billion at December 31, 2014, representing 81.9% of its gross indebtedness on a consolidated basis. On December 31, 2014, the Company held R\$ 2.4 billion in cash equivalents and short-term investments denominated in currencies different from the Brazilian *real*, intended to be invested in maintenance capital expenditure, new production capacity or working capital, in the same countries in which such amount is available, considering the Company's significant foreign operations. Due to its tax planning policy, the Company does not intend to transfer material amounts between countries, using different currencies. Additionally, the Company does not have any material restriction on the transfer of cash and short-term investments held by foreign subsidiaries and the funds are readily convertible into other foreign currencies, including the Brazilian *real*.

Demand for steel is cyclical and a reduction in prevailing world prices for steel could adversely affect the Company's operating results.

The steel industry is highly cyclical. Consequently, the 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 operating results 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 the Company's steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies experienced a significant slow down, in turn affecting many other countries. Since then, the price has experienced a high volatility in the global market due to the overcapacity in the world steel industry and slow growth in the steel consumption. 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 operations and prospects.

Table of Contents

Less expensive imports from other countries into Brazil may adversely affect the Company's operating results.

Steel imports in Brazil caused downward pressure on steel prices in 2014, adversely affecting shipments and profit margins, especially in the fourth quarter. Competition from foreign steel producers is a threat and may grow due to an increase in foreign installed steel capacity, depreciation of the U.S. dollar and a reduction of domestic steel demand in other markets, with these factors leading to higher levels of steel imports into Brazil at lower prices. Any change in the factors mentioned above, as well as in duties or protectionist measures could result in a higher level of imports into Brazil, resulting in pressures on the domestic prices that could adversely impact our business.

Less expensive imports from other countries into North America and Latin America may adversely affect the Company's operating results.

Steel imports in North America and Latin America have forced a reduction in steel prices in the last several years, adversely affecting shipments and profit margins. The competition of foreign steel producers is strong and may increase due to the increase in their installed capacity, the depreciation of the U.S. dollar and the reduced domestic demand for steel in other markets, with those factors leading to higher levels of steel imports into North and Latin America at lower prices. In the past, the United States government adopted temporary protectionist measures to control the import of steel by means of quotas and tariffs. Some Latin American countries have adopted similar measures. These protectionist measures may not be adopted and, despite efforts to regulate trade, imports at unfair prices may be able to enter into the North American and Latin American markets, resulting in pricing pressures that may adversely affect the Company's results.

New Entrants into the Brazilian market can affect the Company's competitiveness.

Since 2009, the intention of installing new steel production capacity in Brazil has been announced by a number of players in the industry. If effected, these installations could result in a possible loss of market share, reduction of prices and shortage of raw materials with the resulting increase in their prices. The Company believes that this trend should continue throughout 2015.

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 the 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 affect the Company's exports and results.

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

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The 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 the Company from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties.

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

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.

Moreover, environmental legislation establishes that the regular functioning of operations that pollute, have the potential to pollute or that cause any form of environmental degradation, is subject to environmental licensing. This licensing is required for initial installation and operation of the project, as well as any expansions performed, and the licenses must be renewed periodically. Each of the licenses is issued according to the phase of the project's implementation. In order for the license to remain valid, the project must comply with conditions established by the environmental licensing body.

Table of Contents

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.

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.

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, the Company could be adversely affected by labor disruptions involving unrelated parties that may provide goods or services. Strikes and other labor disruptions at any of the Company's operations could adversely affect the operation of facilities and the timing of completion and the cost of capital of our projects.

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 preferred shares and ADSs.

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. Although economic conditions are different in each country, 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 outflows of funds from, 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 preferred shares or the ADSs, could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all, and could also have a material adverse effect on our operations and prospects.

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..

Table of Contents

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 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 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 October 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 itself has a number of operations throughout Canada and the United States, with 15 steel units and 57 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. Gerdau's initial focus was to ensure its iron ore self-sufficiency within the state of Minas Gerais. Since the iron ore self-sufficiency on our integrated mill (Ouro Branco) was achieved in 2012, currently, the Company is conducting exploration and development studies on its mining operations in order to establish itself as a player in the global iron ore market.

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 Company 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), the largest long special steel producer, forged parts manufacturer and foundry in Spain, and one of the major producers of forged parts using the stamping process in that country. In December 2006, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A., had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., a subsidiary of CIE Automotiva for US\$143.0 million (R\$ 313.8 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. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor.

In March 2006, the assets of two industrial units were acquired in the United States. The first was Callaway Building Products in Knoxville, Tennessee, a supplier of fabricated rebar to the construction industry. The second was Fargo Iron and Metal

Table of Contents

Company located in Fargo, North Dakota, a storage and scrap processing facility and service provider to manufacturers and construction companies.

In June 2006, Gerdau acquired for US\$103.0 million (R\$ 224.5 million on the acquisition date) Sheffield Steel Corporation in Sand Springs, Oklahoma in the USA. Sheffield is a mini-mill producer of common long steel, namely concrete reinforcement bars and merchant bars.

In the same month, Gerdau S.A. 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 November 2006, the Company completed the acquisition of a 55% controlling interest in Pacific Coast Steel (PCS), for \$104.0 million (R\$ 227.4 million on the acquisition date). The company operates rebar fabrication plants in San Diego, San Bernardino, Fairfield, and Napa, California. Additionally, in April, 2008 Gerdau increased its stake in PCS to 84% paying US\$82.0 million (R\$ 138.4 million on the acquisition date). The acquisition of PCS expanded the Company's operations to the West Coast of the United States and also added rebar placing capability.

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 Industrias Nacionales, C. por A. (INCA), a company located in Santo Domingo, Dominican Republic, that produces rolled products. This partnership allowed the Company 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, the Company 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 aims 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 joint venture for an investment in Tadipatri, India. The joint venture included an interest of 45% in Kalyani Gerdau Steel Ltd. The agreement provides for shared control of the joint venture, 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 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 the Company acquired control over KGS, the Company 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 the Company'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 acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials headquartered in Nashville, Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was US\$46 million (R\$ 84.9 million on the acquisition date) in cash, plus the assumption of certain liabilities of the acquired company.

In the same month, 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.

Table of Contents

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 controls 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 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 \$180 million (R\$ 303.7 million on the acquisition 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 January 6, 2009, the Company, through its subsidiary Gerdau Aços Longos S.A., signed an agreement for the acquisition of 100% of Maco Metalúrgica Ltda. for R\$4.2 million. The activities of Maco Metalúrgica Ltda. include, among other things, the production and sale of drawn steel wires and electric-welded steel mesh. The acquisition was concluded on June 4, 2009.

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 21, 2010, Gerdau S.A. concluded the acquisition of Tamco, a company based in the state of California. TAMCO is a mini-mill that produces rebar and is one of the largest producers on the West Coast of the United States. The acquisition price was approximately US\$ 166.4 million (R\$ 283.1 million on the acquisition date).

In January 2013, the Company acquired certain assets and liabilities from Cycle Systems Inc. for US\$13.6 million (R\$27.1 million on the acquisition date). The company is located in the city of Roanoke, Virginia in the United States and operates scrap processing centers in the state,

including a scrap shredder machine and various scrap yards.

On October 8, 2014, the Company concluded the sale of its 50% interest in its joint venture 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.

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 2013 (last information available), 28.2% of the total crude steel production in the world was through mini-mill process and the remaining 71.8% was through the integrated process.

Table of Contents**Crude Steel Production by Process in 2013***

Country	Crude Steel Production (in million tonnes)	Production by Process (%)	
		Mini-mill	Integrated
World	1,600	28.2%	71.8%
China	779	9.5%	90.5%
Japan	111	22.5%	77.5%
U.S.A.	87	60.6%	39.4%
India	81	68.3%	31.7%
Russia	69	30.2%	69.8%
S. Korea	66	39.0%	61.0%
Germany	43	31.6%	68.4%
Ukraine	33	6.0%	94.0%
Brazil	34	25.1%	74.9%

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 849 million tonnes in 2000 to 1,637 million tonnes in 2014, for an average annual increase of 5.1%.

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 1.2% from 1,618.5 million tonnes in 2012 to 1,637.0 million tonnes in 2014, with a 7.7% growth in the Middle East, 1.9% in North America and 1.7% growth in the European Union.

Crude Steel Production (in million tonnes)

Source: worldsteel/monthly statistics

China is still undergoing a period of strong industrialization, launching numerous infrastructure projects and developing an important manufacturing base, which has contributed to increased Chinese output. China's crude steel production in 2014 reached 822.7 million tonnes, an increase of 0.9% over 2013. In 2014, China's share of world steel production was 50.3% of world total crude steel.

Table of Contents

Crude Steel Production by Country in 2014 (million tonnes)

Source: worldsteel/monthly statistics

Asia produced 1,110.7 million tonnes of crude steel in 2014, an increase of 1.4% compared to 2013, its share of world steel production amounted to 67.8% in 2014. Japan produced 110.7 million tonnes in 2014, stable when compared to 2013. India's crude steel production was 83.2 million tonnes in 2014, a 2.3% increase compared with 2013. South Korea showed an increase of 7.4%, producing 71.0 million tonnes in 2014.

The EU-28 registered an increase of 1.7% compared to 2013, with a production of 169.2 million tonnes of crude steel in 2014. The United Kingdom showed an increase of 1.7% compared to 2013, producing 12.1 million tonnes in 2014, while Germany remained stable when compared to 2013, producing 42.9 million tonnes in 2014.

In 2014, crude steel production in North America was 121.2 million tonnes, an increase of 1.9% compared with 2013. The United States produced 88.3 million tonnes of crude steel, 1.6% lower than 2013.

The CIS showed a crude steel production decrease of 2.8% in 2014. Russia produced 70.7 million tonnes of crude steel, an increase of 2.6% compared to 2013, while Ukraine recorded a decrease of 17.1% with year-end figures of 27.2 million tonnes.

The Brazilian Steel Industry

In 2014, Brazil maintained its position as the world's 9th largest producer of crude steel, with a production of 33.9 million tonnes, a 2.1% share of the world market and 75.0% of the total steel production in Latin America during the year.

Total sales of Brazilian steel products were 30.3 million tonnes in 2014, 30.1 million tonnes in 2013 and 30.9 million tonnes in 2012, exceeding domestic demand of 24.7 million tonnes in 2014, 26.5 million in 2013 and 25.4 million in 2012. In 2014, total steel sales in the domestic market decreased 9.0% from 2013, going from 22.8 million tonnes to 20.7 million tonnes.

The breakdown of total sales of Brazilian steel products in 2014 was 63.7% or 19.3 million tonnes of flat steel products, formed by domestic sales of 11.2 million tonnes and exports of 8.1 million tonnes. The other 36.3% or 11.0 million tonnes represented sales of long steel products, which consisted of domestic sales of 9.6 million tonnes and exports of 1.4 million tonnes.

Table of Contents

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

(*) Preliminary figures

Source: Instituto Aço Brasil

Domestic demand - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita 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 2014, Brazilian GDP increased by 0.1%, increased by 2.3% in 2013 and grew by 1.0% in 2012.

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, based on apparent domestic consumption, has lagged total supply (total production plus imports).

In 2014, Brazilian steel exports totaled 9.5 million tonnes, representing 31.5% 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 6.4 million tonnes in 2014, 4.8 million tonnes in 2013 and 6.3 million tonnes in 2012, representing 66.8%, 64.9% and 67.4% of Brazil's total exports of steel products, respectively.

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

(*) Preliminary figures

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 2012, imports were 3.8 million

Table of Contents

tonnes, dropped to 3.7 million tonnes in 2013 and increased to 4.0 million tonnes in 2014. In 2014, imports represented 16.1% of apparent domestic consumption.

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 and in the United States.

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 mid-sized 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.

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.

Table of Contents

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. The Company'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 2008, 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 automotive sector. The Company believes that this trend should continue throughout 2015

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, Spain, the United States, Guatemala, India, Mexico, Peru, the Dominican Republic, Uruguay and Venezuela.

Gerdau is the leading manufacturer of long steel in the Americas and a major global supplier of special steel. In Brazil, Gerdau also produces flat steel and iron ore, activities that are expanding its product mix and the competitiveness of its operations. Gerdau has industrial operations in 14 countries – the Americas, Europe and Asia – with a combined installed capacity of more than 25 million tonnes of steel a year. It is also 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. With more than 120,000 shareholders, Gerdau's shares are listed on the New York, São Paulo and Madrid stock exchanges.

According to the Brazilian Steel Institute (Instituto Aço Brasil), Gerdau is Brazil's largest producer of long rolled steel. Gerdau holds significant market share in the steel industries of almost all countries where it operates and has been classified by worldsteel as the world's 16th largest steel producer based on its consolidated crude steel production in 2013 (last information 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, an integrated steel mill located in the state of Minas Gerais. The Company currently has a total of 52 steel producing facilities globally, including joint venture and associate companies.

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As of December 31, 2014, total consolidated installed capacity, excluding the Company's investments in joint venture and associate companies, was 26.0 million tonnes of crude steel and 22.4 million tonnes of rolled steel products. In the same period, the Company had total consolidated assets of R\$ 63.0 billion, consolidated net sales of R\$ 42.5 billion, total consolidated net income (including non-controlling interests) of R\$ 1.5 billion and shareholders' equity (including non-controlling interests) of R\$ 33.3 billion.

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 rods, structural bars and hot rolled coils, finished products for consumer goods industry such as commercial rolled steel bars and machine 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, Europe and Asia. The Company began its expansion into North America in 1989, when consolidation in the global steel market effectively began. The Company currently operates 15 steel production units in the United States and Canada, and believes that it is one of the market leaders in North America in terms of production of certain long steel products, such as rods, commercial rolled steel bars, extruded products and beams.

Table of Contents

The Company's operating strategy is based on the acquisition 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, the Company also exports a portion of its production to other countries.

Through its subsidiaries and affiliates, the Company also engages in other activities related to the production and sale of steel products, including: reforestation; electric power generation projects; coking coal, 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 operations in North and Latin America (except Brazil) are aimed at their respective local markets.

Starting in 2014, the iron ore operation, which previously was reported under the Brazil Business Operation, was reported separately as a new business operation called Iron Ore. Thus, the numbers of 2012 and 2013 were adjusted accordingly for comparative purposes.

The Company's corporate governance establishes a business segmentation, as follows:

- Brazil (Brazil Business Operation) includes the steel operations in Brazil (except special steel) and the metallurgical and coking coal operation in Colombia;
- North America (North America Business Operation) includes all North American operations, except Mexico and special steel;
- Latin America (Latin America Business Operation) includes all Latin American operations, except the operations in Brazil and the metallurgical and coking coal operations in Colombia;
- Special Steel (Special Steel Business Operation) includes the special steel operations in Brazil, Spain, United States and India.
- Iron Ore (Iron Ore Business Operation) includes the iron ore operations in Brazil.

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

Shipments

**Gerdau S.A. Consolidated
Shipments by Business
Operations (1)
(1,000 tonnes)**

	Year ended December 31,		
	2014	2013	2012
TOTAL STEEL	17,869	18,519	18,594
Brazil(2)	6,583	7,281	7,299
North America	6,154	6,145	6,472
Latin America	2,623	2,807	2,707
Special Steel	2,894	2,857	2,657
Eliminations and Adjustments	(385)	(571)	(541)
IRON ORE	7,971	5,017	4,399

(1) The information does not include data from joint ventures and associate companies.

(2) Does not consider coking coal and coke shipments.

Table of ContentsNet Sales

Gerdau S.A. Consolidated Net Sales by Business Operations (1) (R\$ million)	Year ended December 31,		
	2014	2013	2012
TOTAL	42,546	39,863	37,982
Brazil(2)	14,294	14,837	14,028
North America	14,049	12,562	12,450
Latin America	5,670	5,366	4,964
Special Steel	8,644	8,023	7,389
Iron Ore	945	704	491
Eliminations and Adjustments	(1,055)	(1,629)	(1,340)

(1) The information does not include data from joint ventures and associate companies.

(2) Includes coking coal and coke net sales.

Brazil Business Operation*Steel information*

The Brazil Business 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 based on historical data for the three preceding months. Brazil Business 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.

In the Brazil Business Operation, sales volume in 2014 decreased 9.6% when compared to 2013, mainly influenced by the 5.8% reduction in the domestic market demand due to a lower level of activity in the construction and industry sectors, reflecting the low growth of the GDP. Furthermore, the 25.4% reduction on exports occurred due to the lower international prices and the global over supply of the steel industry.

In 2014, around 20% of the production sold in Brazil was distributed through the Company's distribution channel, with 89 stores throughout Brazil, 44 downstream facilities and five flat steel service centers, serving an 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 Company employees and authorized sales representatives working on commission. This Business Operation has annual crude steel installed capacity of 9.1 million tonnes and 6.0 million tonnes of finished steel products.

Metallurgical and coking coal information

The coal mines are located in Tausa, Cucunubá, Samacá, Ráquira and Cúcuta, Colombia. The use of these mineral resources as an input for our integrated mill (Ouro Branco) should contribute to the long term competitiveness of this unit. The Company does not currently consider any of these properties to be a material property for purposes of Industry Guide 7 and none of these properties have any known reserves.

North America Business Operation

The North America Business Operation has annual production capacity of 10.0 million tonnes of crude steel and 9.1 million tonnes of finished steel products. It has a vertically integrated network of 15 steel units for the operation of a mini-mill, 33 scrap recycling facilities, 66 downstream operations (including three joint ventures) and fabshops. North America Business 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 operation 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

Table of Contents

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. customers are centrally managed by the Tampa sales office while sales to Canadian customers are managed by the Whitby 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 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 the Company's facilities work closely with customers to tailor product requirements, shipping schedules and prices.

At the North America Business Operation, shipments remained stable in 2014, on the level of 6.2 million tonnes, due to the maintenance of the good demand in the non-residential construction and industry sectors. On the other hand, the north American market was impacted by the increasing share of imported products.

The North America Business Operation accounted for 33.7% of overall Gerdau sales volumes. The Company's Canadian operations sell a significant portion of their production in the United States.

Latin America Business Operation

The Latin America Business Operation comprises 15 steel facilities (including joint ventures and associate companies), 47 retail facilities, 29 fab shops (including joint ventures and associate companies) and 18 scrap processing facilities (including associate companies) located in 9 countries. The entire operation is focused on the respective domestic markets of each country, operating mini-mills facilities with annual manufacturing capacity of 2.9 million tonnes of crude steel and 2.7 million tonnes of finished steel products. The Latin American operation accounted for 14.4% of overall Gerdau sales volumes, representing 2.6 million tonnes of finished products in 2014, a 6.6% decrease when compared to 2013, due to the increase of imports and the slower pace of economic growth in the region. The main representative countries in the Latin America Business Operation are Chile, Mexico, Colombia and Peru. Gerdau also operates in the markets of Uruguay, Argentina, Dominican Republic, Venezuela and Guatemala.

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

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Colombia - The Company believes to have a market share of 27% 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 854,000 tonnes of crude steel and 764,000 tonnes of rolled products.

Peru Is one of the main steel companies in Peru, with more than 50 years of experience in this business. The company sells its products to approximately 500 clients in the construction, manufacturing and mining sectors and has more than 140 distributors. Gerdau in Peru has annual installed capacity of 650,000 tonnes of crude steel and 520 tonnes of rolled products.

Mexico - It currently operates two mills producing crude and rolled steel located in the state of Mexico with aggregate annual installed production capacity of 500,000 tonnes of crude steel and 400,000 tonnes of rolled steel products, with another unit to produce structural profiles being built in the state of Hidalgo. It also has three scrap processing and collection units and 7 distribution centers. Gerdau Corsa produces rebars, cut and band rebars and structural profiles.

Special Steel Business Operation

The Special Steel Business Operation is composed of the operations in Brazil (Charqueadas, Pindamonhangaba and Mogi das Cruzes), in the United States (Fort Smith, Jackson and Monroe), in Spain (Basauri, Reinos, Azkoitia and Vitoria) and in India (Tadipatri). This operation produces engineering steel (SBQ), tool steel, stainless 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 for suspension springs, clean steel, high temperability steels and steel with improved machining characteristics, among others.

Table of Contents

The Special Steel Business Operation recorded growth of 1.3% in shipments in 2014 compared to the prior year, due to a higher demand verified in Spain and North America, and a greater contribution from sales in the operation in India. On the other hand, the Brasil operations had a decrease in sales due to the lower level of activity in the automotive sector.

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, which is sold in the domestic and export markets. The operation in Brazil has more than 400 customers located mainly in Brazil, although its products are also exported to South America, North America, Europe and Asia.

In Europe, Gerdau special operations are located in Spain (Basauri, Reinosa, Azkoitia and Vitoria), which sells special steel to the entire continent and exports to North America, Africa and Asia. This operation has more than 450 clients located mainly in Spain, France, Germany and Italy, and has an annual installed capacity of 1.1 million tonnes of crude steel and 1.1 million tonnes of rolled products. The operation also has four downstream operations located in Spain.

In North America, Gerdau maintains a presence in United States, with three mini-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 1.3 million tonnes of crude steel and 1.2 million tonnes of rolled products and has more than 200 customers located mainly in the United States, Canada and Mexico.

In India, the Company initiated the operation of a plant for the production of special steel with capacity of 250 thousand tonnes of crude steel and 300 thousand tonnes of rolled products. Important projects are being executed, such as installing a second automatic inspection line (concluded in 2014), a new coke oven (to be concluded in 2015) and a power generation plant (to be concluded in 2015).

There are commercial and operational synergies among the units in this business operation through centralized marketing and production strategies.

Iron Ore Business Operation

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.

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

- 2004 to 2011: 46.8 thousand meters of drill holes;
- 2012 to 2014: 41.9 thousand meters of drill holes;
- 2015 to 2017: 55.0 thousand meters of drill holes are planned in order to add information for geological modeling.

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.

Table of Contents**Exports**

In 2014, the international steel industry continued to suffer from the effects of China's slowing economy and the stagnant world economy. In particular, China's positioning as a major importer of raw materials and exporter of steel products, combined with oversupply in international markets, contributed to a record declines in the prices of raw materials and steel products.

The behavior of international prices differed significantly in the first and second halves of 2014. In the first half, prices increased or remained stable, while in the second half prices of the main steel products (both long and flat) registered sharp decreases. Prices for the main long steel products (rebar, wire rods, profiles and structural profiles) declined by 6% to 23% in international markets, considering exports by traditional exporting countries (Turkey, Russia, Ukraine and China) in December 2014 in relation to December 2013. Prices for key flat steel products exported by China (hot-rolled coils and heavy plates) fell 6% to 16% on international markets, considering exports in December 2014 compared to December 2013.

In 2014, international political conflicts also played an important role in driving the dynamics of international markets. The conflict between Ukraine and Russia, for example, led to lower exports by the region. Later, the sanctions imposed on Russia by a number of countries adversely affected the country's domestic market, leading the prices of its products to fall and further pressuring international prices.

In 2014, Brazil remained Gerdau's main exporting country, accounting for 90% of its total exports by volume. The United States accounted for 5% of the total, while the remainder was exported from the units in Latin America.

The main export destination in 2014 was North America, accounting for 43%, which was driven by exports of slabs. South America was another important destination, due to the exports to supply the Group's companies, accounting for 39% by volume in 2014. Meanwhile, Central America, Europe and Asia each accounted for 6%.

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,		
	2014	2013	2012
Total including shipments to subsidiaries (1,000 tonnes)	1,134	1,715	2,413
Africa		4%	1%
Central America	6%	12%	12%
North America	43%	23%	28%
South America	39%	42%	29%
Asia	6%	13%	21%
Europe	6%	6%	5%
Middle East			1%

In 2014, Gerdau continued to register its highest export volumes in billets and slabs, despite exporting products from almost its entire line.

Gerdau continues to build a diversified client base around the world, which will be fundamental for meeting the challenges ahead in 2015.

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 50% 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 and profiles.

Table of Contents

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

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, merchant bars 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 or high-alloy steel requires advanced manufacturing processes and normally includes some degree of customization. The Company produces special and stainless steel used in automotive components, machinery, road and agricultural parts, mining equipment, tools, rail components and maritime mooring at its Pindamonhangaba, Mogi das Cruzes and Charqueadas units in Brazil, at Basauri, Azkoitia and Vitória units in Spain, at the Fort Smith, Jakson and Monroe units in the United States and in Tadipatri, India.

In the United States, Gerdau produces special sections such as 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 clients, which are mainly manufacturers.

Flat Products

The Company's Ouro Branco mill produces slabs, which are rolled into flat products such as hot- and cold-rolled steel coils, heavy plates and profiles. Gerdau also produces hot-rolled coils, which are sold in the domestic and export markets. The Company distributes these hot-rolled coils 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 five flat steel service centers.

Iron Ore

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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 Operation for the periods shown:

Products	Brazil			North America			Latin America			Special Steel			Iron Ore			
	Rebars, merchant bars, beams, drawn products, billets, blooms, slabs, wire rod, structural shapes, hot rolled coil 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.			Sinter feed, Pellet feed and lump ore			
Year	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014
Net Sales (R\$ million)	14,294.4	14,837.1	14,028.3	14,048.5	12,562.2	12,449.7	5,670.0	5,366.4	4,964.4	8,643.9	8,023.1	7,388.7	944.8	704.3	490.6	(1,000.0)
% of Consolidated Net Sales	33.6%	37.2%	36.9%	33.0%	31.5%	32.8%	13.3%	13.5%	13.1%	20.3%	20.1%	19.5%	2.2%	1.8%	1.3%	1.0%
Net Income (R\$ million)	959.0	1,537.1	960.9	691.3	18.6	323.8	(162.0)	104.0	(42.1)	123.1	156.7	362.3	54.8	168.1	161.8	(1,000.0)
% of Consolidated Net Income	64.4%	90.8%	64.2%	46.4%	1.1%	21.6%	-10.9%	6.1%	-2.8%	8.3%	9.3%	24.2%	3.7%	9.9%	10.8%	-1.0%

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 44 mini-mills worldwide (excluding joint ventures and associate companies). Mini-mills are equipped primarily with electric arc furnaces that can melt steel scrap and produce the steel product at the required specifications. 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, melting, casting, rolling and drawing. The basic difference between this process and the integrated mill

Table of Contents

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 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 and hot rolled coils rolling mills.

Logistics

Gerdau sells its products through independent distributors, direct sales from the mills and its retail network (Comercial Gerdau, which was merged into Gerdau Aços Longos S.A. in March, 2013).

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 15 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.

Table of Contents

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. In addition, the Company is currently in progress with a project and construction of a new export terminal for coal in Colombia.

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 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 five 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, Spain and India.

Competitive Position Brazil

The Brazilian steel market is very competitive. In the year ended December 31, 2014, the ArcelorMittal Brasil was the largest Brazilian crude steel producer, according to the Brazilian Steel Institute (IABr - Instituto Aço Brasil). Meanwhile, Gerdau was the second largest crude steel producer in Brazil during 2014.

The table below presents the Company's main competitors and market share in Brazil's crude steel market:

Brazilian crude steel producers (%)	Fiscal year ending December 31,		
	2014*	2013	2012

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ArcelorMittal Brasil	25.5	23.2	22.6
Gerdau	22.0	23.6	23.7
Usiminas	17.9	20.1	20.7
CSN	13.2	13.0	14.0
CSA	12.2	10.9	10.2
Others	9.2	9.2	8.8
Total	100.0	100.0	100.0

Source: IABr - Instituto Aço Brasil

(*) Preliminary figures

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.

Table of Contents

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 10.0 million tonnes of crude steel and 9.1 million tonnes of rolled products.

Gerdau's geographic market in North America encompasses primarily the United States and Canada. 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.

In Latin 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. Around 80% of shipments from Gerdau's Latin American Operation originate from Chile, Peru, Colombia and Mexico. 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 Latin American market are the constructions, mechanic, agriculture and mining markets.

The Special steel operations in Spain has approximately 8% stake of the special steel market in Europe; in United States, the Company believes to have approximately 23% 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 75%; 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 Cyclicity and Seasonality

The steel industry is highly cyclical worldwide. Consequently, the 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. In addition, since the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the sector is dependent on export markets. The demand for steel products and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including general trends in the manufacturing, construction and automotive sectors. Since 2003, demand for steel products from developing countries (particularly China) and overall world economic growth have contributed to historically high levels in the prices of the Company's steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies showed strong signs of slow down, in turn affecting many other countries. Over the last few years, developing economies showed signs of gradual recovery while developed economies are still a challenging demand environment. The Company believes that in 2015 the world steel market should show a slight demand increase. A material decrease in demand for steel or exports by countries who are not able to consume their production, as happened in 2008, could have a significant adverse effect on the Company's operations and prospects.

In the Company's Brazilian and Latin 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 the Company'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. In the Company's Special Steel Operations, particularly in Spain, the third quarter is traditionally marked by collective vacations that reduce operations in the quarter to only two months.

Table of Contents

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.

Furthermore, since 2012 the Company has been developing energy efficiency actions at all of its industrial units in the country in order to increase its energy savings on auxiliary equipment in the steel production process, which accounts for approximately 40% of the energy consumed by operations.

Brazil's growing energy consumption signals the importance of initiatives that help conserve resources and reduce environmental impacts. The project developed by Gerdau helps improve this scenario and the sustainability of the country's energy sector, since it seeks to increase the Company's energy efficiency by optimizing its industrial processes.

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. Gerdau believes to be the largest consumer of ferrous scrap in Brazil.

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 developed by Gerdau's unit in Colombia and other materials imported from the United States, Canada, Russia and Austrália, as well as petroleum coke purchased from Petrobrás and charcoal chaff also acquired from other domestic suppliers; (ii) ferroalloys, of which 85% are purchased in the domestic market; and (iii) iron ore, which is mainly produced from its own mines and partially supplied by medium and small sized mining companies, most of them strategically located close to the plant.

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

Table of Contents

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.

The main input used by the Company's mills in Latin 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. The consumption of scrap in electric arc furnaces uses a combination of obsolete scrap and industrial scrap, the proportions of which varies in accordance with the availability of each one and the type of steel to be produced.

In 2014, Gerdau consumed more than 15 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, about 80% of the scrap consumed by the Company comes from its own collection process and from small and mid-sized 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 percentage is still significant, ensuring the competitiveness of the business in the region.

Brazil and Special Steel Business Operations - 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.

In Brazil, to ensure proper processing of the scrap purchased directly and from small and mid-sized collectors, Gerdau has, among other equipment, 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 Operation - Ferrous scrap is the primary raw material. Although U.S. scrap production exceeds domestic consumption, with the country leading world exports of the product, availability varies in accordance with the level of economic activity, the season of the year and export levels, leading to price fluctuations. Twelve mills in the North America Business Operation have on-site dedicated scrap processing facilities, including shredder operations that supply a 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.

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

Pig Iron and Sponge Iron

Brazil Business Operation - 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 the cost of charcoal, the most volatile cost item in pig iron production.

In Brazil, Gerdau does not have pig iron supply contracts, negotiating volumes and delivery conditions directly with suppliers. The price of pig iron may fluctuate in line with the variation in international prices, given that a large portion of production in Brazil is exported.

North America Business Operation - 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. Gerdau does not utilize significant volumes of scrap substitutes in mini-mills, except for pig iron, which, due to its chemical properties, is used to produce steels with particular characteristics.

Table of Contents

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 1.7 tonnes of iron ore.

Iron ore consumption in Gerdau mills in Brazil amounted to 7.6 million tonnes in 2014, 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.

Gerdau has three coke production units in Colombia with annual production capacity of 550,000 tonnes. In 2013, it consolidated the supply of Colombian coking coal and began to develop coal for injection processes, both of which are used at the Ouro Branco mill. Also in 2013, it started to develop new solid fuels customized at this unit, specific cokes for testing at plants equipped with smaller blast furnaces that traditionally use charcoal as fuel, and coals and cokes for other applications in the market.

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 readily available in the open market. Gerdau North America Business Operation 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:

- Contracts in the Regulated Contractual Environment in which the Company is a Captive Consumer are used at the following units: Charqueadas, 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: Araçariçuama, Cosigua, Cearense, Ouro Branco, Divinópolis, Barão de Cocais, Riograndense, Araucária, São José dos Campos, Pindamonhangaba and Mogi das Cruzes. 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 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

Table of Contents

(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 Desenvix (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 Spain, the energy contract comes into force in January 2014 and is valid for 2015 too. The price paid for electric power is based on the spot market, with Gerdau having the option to lock in prices. Spain is currently discussing its regulatory framework, given the financial deficits generated by its power industry. The natural gas contract also comes into force in January 2014 and is valid for 2015.

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 July 2013 at predetermined prices valid for 3 years and 6 months. 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. This agreement will finish on 2017, and the transmission electricity agreement will finish in 2034. The plant receives CNG (Compressed Natural Gas) for major part of their needs and the supply is done through piping lines in Renca and Colina plants.

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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 2014, the plant operated mostly on fuel oil, due to competitive reasons.

In Peru, has a current electricity contract until December 2017. 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.

In the Dominican Republic, a new power purchase agreement was secured in July 2014 (valid for three years), with new power factor conditions. Since 2011, the unit receives liquefied natural gas (LNG) delivered by truck.

In Mexico, electricity is purchased under agreements regulated by the state-owned utility Compañía Federal de Electricidad (CFE). The natural gas agreements are valid for 1 year and are renewed automatically, with prices indexed by the Nymex.

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) or bilateral agreements.

Table of Contents**Production Output**

Gerdau S.A. Consolidated annual production (million tonnes)	Year ended December 31,		
	2014	2013	2012
Crude steel production	18,028	18,009	18,920
Rolled steel production	16,026	15,502	15,824
Iron Ore production	7,623	5,586	4,755

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, 45 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.

The Knowledge Management Portal is used to share information among all steel mills seeking performance improvements and leverage of process knowledge supported by Communities of Practice and technical specialists.

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.

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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 31-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. 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.

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 Spain has a Risk Committee that is responsible for analyzing customer credit. The United States and Brazil Special Steel Operations have their own credit departments for customer's credit analyses.

Table of Contents

As a result of these policies, the Company's provision for doubtful accounts has been at low levels. On December 31, 2014, provision for doubtful accounts was 2.2% based on gross account receivables as per Note 5 to the Consolidated Financial Statements, on December 31, 2013 was 2.4% and on December 31, 2012 this provision was 2.4% 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\$ 5.0 billion (R\$ 11.0 billion as of April 30, 2014), including material damage to installations (US\$ 4.2 billion) and losses of gross revenues (US\$ 800 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, 2015. 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 Goiás between the cities of Caçú 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.

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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.

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 034/95, was signed on February 18, 1995, 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,

Table of Contents

manganese ore, coke, copper-alumina concentrate, blast furnace slag, clinker, iron ore, green petroleum coke, fertilizers, anthracite, barite and coal.

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

Gerdaу's mining explorations in Brazil are subject to the prevailing rules of the Brazilian Mining Code and un-codified mining legislation, with mining exploration substantiated by mining property rights and titles. Gerdaу 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 Gerdaу 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. The National Department of Mineral Production - DNPM - is responsible for concessions, regulations and oversight. Gerdaу 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.

All mineral rights owned by Gerdaу are duly registered in the DNPM, a federal Brazilian agency whose purpose is to promote planning and incentive activities for mineral exploitation and use of mineral resources, as well as overseeing geological, mineral, and mineral technology surveys, in addition to ensuring, controlling, and monitoring mining activities within the mining polygons. The mineral rights owned by Gerdaу 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 owned by Gerdaу:

**Mining
Right**

DNPM No	CITY	LOCATION
1978/1935	Barão de Cocais	GONGO SOCO
832620/2006	Ouro Preto	MIGUEL BURNIER
930600/2009	Ouro Preto	MIGUEL BURNIER
932705/2011	Itabirito	VARZEA DO LOPES
833209/2006	Ouro Preto - Ouro Branco	DOM BOSCO
724/1942	Ouro Preto - Ouro Branco	DOM BOSCO
832090/2005	Ouro Preto - Ouro Branco	DOM BOSCO
832044/2006	Ouro Branco	DOM BOSCO
830158/2007	Ouro Preto	DOM BOSCO
830159/2007	Ouro Preto	DOM BOSCO
830160/2007	Ouro Preto	DOM BOSCO
831640/2003	Ouro Preto	DOM BOSCO
830475/2007	Ouro Preto	DOM BOSCO

In Colombia there are some mining operations, which concessions are governed by the Government and ruled by regulations contained in the Mining Code (Law 685 of 2001 and Law 1382 of 2010). Under the concession rights given to the Company, exploration and exploitation projects of coking coal can be developed. The mines are located at Tausa, Cundinamarca; Cucunubá, Cundinamarca; Samacá and Ráquira, Boyacá; and Cúcuta, north of Santander. The period of the concessions is 30 years and it can be extended for an additional 30 years.

Environmental requirements are also part of the rules that have to be fulfilled in order to develop the projects, in addition to issues relating to the payment of royalties and to the priority security of the personnel (mining).

Table of Contents

C. ORGANIZATIONAL STRUCTURE

The Company's operational structure (including its main operating subsidiaries engaged in steel production) was as follows on December 31, 2014:

Table of Contents

The table below lists the significant consolidated subsidiaries of Gerdau on December 31, 2014, 2013 and 2012:

Consolidated company	Country	2014	2013	Equity Interests	
				Total capital (*)	
				2012	
Gerdau GTL Spain S.L.	Spain	100.00	100.00	100.00	100.00
Gerdau Internacional Empreendimentos Ltda	Brazil	100.00	100.00	100.00	100.00
Gerdau Ameristeel Corporation and subsidiaries (1)	USA/Canada	100.00	100.00	100.00	100.00
Gerdau Açominas S.A.	Brazil	95.85	95.22	93.98	93.98
Gerdau Aços Longos S.A. and subsidiaries (2)	Brazil	94.34	93.48	93.97	93.97
Gerdau Steel Inc.	Canada	100.00	100.00	100.00	100.00
Gerdau Holdings Inc. and subsidiary (3)	USA	100.00	100.00	100.00	100.00
Paraopeba - Fixed-income investment fund (4)	Brazil	88.74	60.09	53.10	53.10
Gerdau Holdings Europa S.A. and subsidiaries (5)	Spain	100.00	100.00	60.00	60.00
Gerdau América Latina Participações S.A.	Brazil	94.22	94.22	94.22	94.22
Gerdau Chile Inversiones Ltda. and subsidiaries (6)	Chile	99.99	99.99	99.99	99.99
Gerdau Aços Especiais S.A.	Brazil	97.17	96.74	95.94	95.94
Gerdau Hungria Holdings Limited Liability Company and subsidiaries (7)	Hungary	100.00	100.00	99.00	99.00
GTL Equity Investments Corp.	British Virgin Islands	100.00	100.00	100.00	100.00
Empresa Siderúrgica del Perú S.A.A. - Siderperú	Peru	90.03	90.03	86.66	86.66
Diacó S.A. and subsidiary (8)	Colombia	99.71	99.71	99.57	99.57
Gerdau GTL México, S.A. de C.V. and subsidiaries (9)	Mexico	100.00	100.00	100.00	100.00
Seiva S.A. - Florestas e Indústrias	Brazil	97.73	97.73	97.73	97.73
Itaguaí Com. Imp. e Exp. Ltda.	Brazil	100.00	100.00	100.00	100.00
Gerdau Laisa S.A.	Uruguai	100.00	100.00	100.00	100.00
Sipar Gerdau Inversiones S.A.	Argentina	99.99	99.99	99.99	99.99
Sipar Aceros S.A. and subsidiary (10)	Argentina	99.96	99.96	99.96	99.96
Siderúrgica del Pacífico S.A.	Colombia	98.32	98.32	98.32	98.32
Cleary Holdings Corp.	Colombia	100.00	100.00	100.00	100.00
Sizuca - Siderúrgica Zuliana, C. A.	Venezuela	100.00	100.00	100.00	100.00
GTL Trade Finance Inc.	British Virgin Islands	100.00	100.00	100.00	100.00
Gerdau Trade Inc.	British Virgin Islands	100.00	100.00	100.00	100.00
Gerdau Steel India Ltd.	India	98.83	98.38	94.69	94.69

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

(1) Subsidiaries: Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel, Chaparral Steel Company.

(2) Subsidiary: Gerdau Açominas Overseas Ltd.

(3) Subsidiary: Gerdau MacSteel Inc.

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

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(5) Subsidiaries: Gerdau Holdings Europa S.A. y CIA., Sidenor y Cia, Sociedad Colectiva, Gerdau I+D Europa., Gerdau Aceros Especiales Europa.

(6) Subsidiaries: Aza Participaciones S.A., Industrias del Acero Internacional S.A., Gerdau Aza S.A., Distribuidora Matco S.A., Aceros Cox Comercial S.A., Salomon Sack S.A., Matco Instalaciones Ltda

(7) Subsidiaries: LuxFin Participation S.L., Bogey Holding Company Spain S.L. and Bogey Servicios Corporativos S.L..

Table of Contents

(8) Subsidiaries: Laminados Andinos S.A. and Cyrgo S.A..

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

(10) Subsidiary: Siderco S.A.

The Company's investments in Bradley Steel Processor and MRM Guide Rail in North America, in which Gerdau Ameristeel holds a 50% stake in the total capital, the investments in Armacero Industrial y Comercial Limitada in Chile, in which the Company owns a 50% stake, the investments in Gerdau Metaldom Corp. in the Dominican Republic in which the Company owns a 45% stake, the investments in Corporación Centroamericana del Acero S.A. in the Guatemala, in which Gerdau has a 30% stake, the investment in Corsa Controladora, S.A. de C.V. in Mexico, in which Gerdau has a 49% stake, the investment in Corsa Controladora, S.A.P.I de C.V. in Mexico, in which Gerdau has a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51,82% stake are accounted in the Company's financial statements using the equity method (for further information see Note 3 Consolidated Financial Statements).

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

Gerdau Aços Longos S.A. - This company produces common long steel and has 10 mills distributed throughout Brazil and annual installed capacity of 4.6 million tonnes of crude steel. This company also sells general steel products and has 89 steel distribution centers located throughout Brazil.

Gerdau Açominas S.A. - Açominas owns the mill located in the state of Minas Gerais, Brazil. The Ouro Branco mill is Gerdau's largest unit, with annual installed capacity of 4.5 million tonnes of crude steel, accounting for 49.5% of Gerdau's crude steel output in the Brazil Business Operation.

Gerdau Ameristeel Corporation - Gerdau Ameristeel has annual capacity of 10.0 million tonnes of crude steel and 9.1 million tonnes of rolled products. The Company is one of the largest producers of long steel in North America. Gerdau Ameristeel subsidiaries are Gerdau Ameristeel US Inc., GNA Partners, Pacific Coast Steel Inc., Gerdau Ameristeel Perth Amboy Inc., Sheffield Steel Corporation, Gerdau Ameristeel Sayreville Inc., TAMCO Steel and, Chaparral Steel Company.

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

Gerdau Aceros Especiales Europa - This company is a special steel producer and has four units in Spain with combined annual production capacity of 1.1 million tonnes of crude steel and 1.1 million tonnes of rolled products.

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Gerdau MacSteel Inc. This company is the largest special steel producer in U.S., has three units and combined annual production capacity of 1.3 million tonnes of crude steel and 1.2 million tonnes of rolled products.

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

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

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

Diaco S.A. - Diaco is one of the largest producers of steel and rebar in Colombia and has annual installed capacity of 854,000 tonnes of crude steel and 764,000 tonnes of rolled products.

Empresa Siderúrgica del Perú S.A.A. - Acquired in 2006, Siderperú is a long steel producer with annual installed capacity of 650,000 tonnes of crude steel and 520,000 tonnes of rolled steel.

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

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

Table of Contents

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

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

Corporación Centroamericana del Acero S.A. - Strategic partnership entered into with Corporación Centroamericana del Acero S.A., assuming a 30.0% stake 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.

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

Cleary Holdings Corp. - Cleary Holdings Corp controls a metallurgical coke producer and coking coal reserves in Colombia.

D. PROPERTY, PLANT AND EQUIPMENT**Facilities**

Gerdau's principal properties are for the production of steel, rolled products and drawn products. The following is a list of the locations, capacities and types of facilities, as well as the types of products manufactured at December 31, 2014:

PLANTS	LOCATION		INSTALLED CAPACITY (1,000 tonnes)			EQUIPMENT	PRODUCTS
	COUNTRY	STATE	PIG IRON/ SPONGE IRON	CRUDE STEEL	ROLLED PRODUCTS		
BRAZIL OPERATION							
Açonorte	Brazil	PE	5,252	9,099	5,989	EAF mini-mill, rolling mill, drawing	Rebar, merchant bars, wire rod, drawn

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Barão de Cocais	Brazil	MG	330	330	196	mill, nail and clamp factory Integrated/blast furnace, LD converter and rolling mill	products and nails Merchant bars
Cearense	Brazil	CE		198	161	EAF mini-mill, rolling mill	Rebar and merchant bars
Cosíguia	Brazil	RJ		932	1,414	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails
Divinópolis	Brazil	MG	430	570	460	Integrated/blast furnace, EOF converter and rolling mill	Rebar and merchant bars
Guaíra*	Brazil	PR		540		EAF mini-mill	Billet
Riograndense	Brazil	RS		450	495	EAF mini-mill, rolling mill, drawing mill, nail and clamp factory	Rebar, merchant bars, wire rod, drawn products and nails

Table of Contents

Usiba*						Integrated with DRI, EAF mini-mill, rolling mill, drawing mill	Rebar, merchant bars, wire rod and drawn products
	Brazil	BA	495	397			
São Paulo						EAF mini-mill, rolling mill	Billets, rebars and coil rebar
	Brazil	SP	820	600			
Contagem	Brazil	MG				Blast furnace	Pig iron
Sete Lagoas	Brazil	MG	132			Blast furnace	Pig iron
Ouro Branco							Billets, blooms, slabs, wire rod, heavy structural shapes and HRC
	Brazil	MG	4,360	4,500	2,026	Integrated with blast furnace, LD converter and rolling mills	
NORTH AMERICAN OPERATION			9,972	9,087			
Beaumont						EAF mini-mill, rolling mill	Wire rod
	USA	TX	600	730			
Calverty City							Merchant bars, medium structural channel and beams
	USA	KY			300	Rolling Mill	
Cambridge*	Canada	ON	330	290		EAF mini-mill, rolling mill	Rebar, merchant bars
Cartersville	USA	GA	840	580		EAF mini-mill, rolling mill	Merchant bars, structural shapes, beams
Charlotte	USA	NC	370	325		EAF mini-mill, rolling mill	Rebar, merchant bars
Jackson	USA	TN	610	540		EAF mini-mill, rolling mill	Rebar, merchant bars
Jacksonville	USA	FL	730	620		EAF mini-mill, rolling mill	Rebar, merchant bars
Knoxville	USA	TN	520	550		EAF mini-mill, rolling mill	Rebar
Manitoba - MRM	Canada	MB	430	360		EAF mini-mill, rolling mill	Special sections, merchant bars, rebar
Sayreville	USA	NJ	730	600		EAF mini-mill, rolling mill	Rebar
St. Paul							Rebar, merchant bars, special bars (SBQ) and round bars
	USA	MN	620	420		EAF mini-mill, rolling mill	
Whitby	Canada	ON	900	840		EAF mini-mill, rolling mill	Structural shapes, rebar, merchant bars
Wilton	USA	IA	320	320		EAF mini-mill, rolling mill	Rebar and merchant bars
Midlothian							Rebar, merchant bars and beams
	USA	TX	1,500	1,449		EAF mini-mill, rolling mill	
Petersburg	USA	VA	1,000	700		EAF mini-mill, rolling mill	Merchant bars and beams
Rancho Cucamonga	USA	CA	472	463		EAF mini-mill, rolling mill	Rebar
LATIN AMERICAN OPERATION			400	2,874	2,737		
Chile							Rebar, merchant bars, wire rod, nails, wire and mesh.
	Chile		520	530		EAF mini-mill, rolling mill	

Table of Contents

Uruguay					EAF mini-mill, rolling mill	Rebar, merchant bars and mesh
	Uruguay		100	90		
Colombia					EAF mini-mill, rolling mill	Rebar, merchant bars, wire rod, shapes and mesh
	Colombia		854	764		
Argentina					Rolling mill, drawing mill	Rebar, merchant bars and mesh
	Argentina			263		
Peru					Blast Furnace, EAF mini-mill, rolling mill	Rebar and merchant bars
	Peru		400	650		
Venezuela					EAF mini-mill, rolling mill	Rebar
	Venezuela		250	170		
Mexico					EAF mini-mill, rolling mill	Rebar, merchant bars and beams
	Mexico		500	400		
SPECIAL STEEL OPERATION			275	4,059	4,576	
Pindamonhangaba					EAF mini-mill, rolling mill, finishing and foundry	Bars, wires, wire rod, finished and rolled bar, rolling mill rolls.
	Brazil	SP		620	1,188	
Mogi das Cruzes					EAF mini-mill, rolling mill and finishing	Bars, special profiles
	Brazil	SP		375	264	
Charqueadas					EAF mini-mill, rolling mill and finishing	Bars, special profiles, wires, wire rod, cold finished bar
	Brazil	RS		430	465	
Basauri					EAF mini-mill, rolling mill and finishing	Special bars and cold finished bars
	Spain			820	372	
Reinosa					EAF mini-mill, rolling mill, finishing and foundry	Cold finished bars, rolling mill rolls and forged pieces.
	Spain			240	161	
Azkoitia					Rolling mill and finishing	Bars, special profiles and cold finished bars
	Spain				397	
Vitória					Rolling mill and finishing	Wire rod and cold finished bars
	Spain				200	
Fort Smith					EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
	USA	AR		474	463	
Jackson					EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
	USA	MI		299	276	
Monroe					EAF mini-mill, rolling mill and finishing	Special bars and shapes and cold finished bar
	USA	MI		551	490	
India					Integrated/blast furnace, converter and rolling mill	Pig iron, billets and rolled bars
	India	AP		275	250	
GERDAU TOTAL			5,927	26,004	22,389	

*Temporarily not in use.

Table of Contents

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

Mining Assets

Iron ore mines

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

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

Focused on ensuring its iron ore self-sufficiency within the state of Minas Gerais, and searching for the opportunity to add value to its business by the use of its own mineral resources, Gerdau is currently conducting surveys to assess and implement expansions projects of its mining operations in order to establish itself as a player in the global iron ore market.

Gerdau's mining location

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

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

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

Table of Contents

The table below shows the payments made to the Brazilian government related to resource extractions, related to 2014.

	CFEM (Financial Compensation for Exploitation of Mineral Resources)		TFRM (Inspection Fee for Mineral Resources)	
Miguel Burnier	R\$	8,547 thousand	R\$	1,920 thousand
Várzea do Lopes	R\$	9,975 thousand	R\$	826 thousand

Financial Compensation for Exploitation of Mineral Resources (CFEM)

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

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

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

Inspection Fee for Mineral Resources (TFRM)

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

The amount of TFRM corresponds to forty one hundredths (0.40) of the Fiscal Unit of the State of Minas Gerais (UFEMG) in force on the due date of the fee per tonne of mineral or crude ore extracted.

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

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

Location and Access

Miguel Burnier/Dom Bosco Complex

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

Várzea do Lopes Complex

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

Table of Contents

Gongo Soco

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

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

Geology and Mineralization

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

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

My) located east of the QF. A west-oriented folding belt developed during this event.

- **Miguel Burnier:** The Miguel Burnier Complex is located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Gandarela and Cauê Formations and rocks of the Piracicaba Group (Minas Supergroup) outcrop therein. The Serra Dom Bosco area is regionally characterized as a syncline, known as Dom Bosco Syncline. The typologies have been classified according to information collected during field visits, from internal reports, drill cores, thin plates, etc.
- **Dom Bosco:** The Dom Bosco Mine is also located in the southwestern portion of the QF, Serra do Dom Bosco. Itabirites and rocks of the Cauê Formation and Piracicaba Group (Minas Supergroup) outcrop therein.
- **Várzea do Lopes:** The Várzea do Lopes Complex is located in the western portion of the QF, Serra da Moeda. Itabirites and rocks of the Cauê Formation and Gandarela Formation (Minas Supergroup) outcrop therein.
- **Gongo Soco:** The geological mapping carried out characterized six pre-Cambrian lithologic units and a Tertiary/Quaternary unit. The pre-Cambrian units outcrop as a normal stratigraphic sequence, being the oldest sequence topographically located on the higher portion of the area, and the youngest on the lower portion, is located in the structural framework of the normal limb of the Gandarela Syncline.

Table of Contents

Facilities

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

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

- OTP 2: phase 1 started operations (start up and ramp up) in September 2013, in Miguel Burnier, with total production capacity of 5.6 Mtpa (natural basis) of lump ore, small lump ore, sinter feed, and pellet feed (wholly-owned by Gerdau). Currently, the Company is carrying out engineering studies (basic engineering) to an expansion of 5.0 Mtpa (natural basis) in order to process itabirites ore and produces fine concentrate (OTP 2 phase 2);

- OTP 3: Currently on stage of scoping study, with expected production capacity of 12.0 Mtpa (natural basis) of sinter feed and pellet feed.

Gerdau total production capacity today is 11.5 Mtpa, considering capacity from OTP 1, OTP 2 (phase 1), dry processing plants (1 and 2) and wet processing plant.

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

OTP 1	OTP 2 (phase 1)
Crushing;	Crushing;
Classification screening;	Classification screening;
Grinding;	Deliming;
Jigging;	Filtering;
Spiral Concentration;	Dewatering screening;
Desliming;	Tailing thickening;
Column flotation;	
Filtering;	
Dewatering screening;	
Tailings and Concentrate thickening;	

The table below provides a summary of estimated capital costs for future projects (investments not yet approved by the Executive Committee are not listed), which will support production and logistics activities. This capex will be funded by the Company's own cash generations and planned bank financing.

Miguel Burnier + Várzea do Lopes	US\$ (million)	Investment Phase
Mining	69	
Investments approved in 2014	36	Execution
Investments contemplated 2015-2017	33	Feasibility
Beneficiation	149	
Private road access - Várzea do Lopes to Miguel Burnier	137	Execution
Other Investments approved until 2014	4	Execution
Investments contemplated 2015-2017	8	Feasibility
TOTAL	218	

The table below illustrates estimated electrical power consumption in the processing plants.

OTP - Ore Treatment Plant	Consumption (kW)
OTP - 1	3,300
OTP - 2	3,500

A summary of the water supply system for the processing facilities is provided in the table below. Indicated collection points present sufficient amounts of water to supply all covered facilities, in compliance with applicable legal criteria.

OTP - Ore Treatment Plant	Total Water with Recirculation (m3/h)	Make up (m3/h)	Distance of the OTP (km)	In take point
OTP - 1	650	150	4.0	Miguel Burnier River
OTP - 2	713	280	3.5	Soledade Lake

Table of Contents

Coal mines

The coal mines are located in Tausa, Cucunubá, Samacá, Ráquira and Cúcuta, Colombia. The use of these mineral resources as an input for our integrated mill (Ouro Branco) should contribute to the long term competitiveness of this unit. The Company does not currently consider any of these properties to be a material property for purposes of Industry Guide 7 and none of these properties has any known reserves.

Investment Programs

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

Brazil Business Operation a total of R\$ 907.6 million was invested in this operation for capital expenditure. The main highlight was the installation work of flat steel rolling mill (heavy plates) at Ouro Branco mill. Currently, the project is in the phase of installation of the metal structures of the buildings and electromechanical installation of the equipment.

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

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

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

Iron Ore Business Operation the business operation spent R\$ 160.9 million in 2014 for capital expenditure on fixed assets. This amount was mainly spent for the maintenance of the operation.

The disbursements in fixed assets planned for 2015 are estimated at R\$ 1.9 billion, and include both strategic and maintenance investments. The table below shows the main projects for the years to come:

Investment Plan	Main Projects	Location	Additional rolling capacity (1,000 tonnes)	Start-up
Brazil Business Operation				
	Flat steel rolling mill (heavy plates) at Ouro Branco mill-MG	Brazil	1,100	2016
	New melt shop at Riograndense mill-RS(1)	Brazil	650	2016
Latin America Business Operation				
	New structural profile rolling mill in Mexico (Gerdau Corsa)(2)	Mexico	700	2015
	New melt shop in Argentina	Argentina	650	2016
Special Steel Business Operation				
	Coke plant and power generation plant in India mill	India		2015

(1) This capacity is not included in the consolidated figures since it is a joint venture.

(2) Replacement of the current melt shop (450,000 tonnes capacity).

Environmental Issues

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

In 2014, Gerdau S.A. invested R\$ 169.8 million in the improvement of its eco-efficiency practices and in technologies for the protection of the air, water and soil.

Environmental Regulation

In all of the countries in which the Company operates, it is subject to federal, state and municipal environmental laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste handling and disposal. Its manufacturing

Table of Contents

facilities have been operating under the applicable environmental rules. The respective permits and licenses require the satisfaction of various performance standards, which are monitored by regulatory authorities. The Company employs a staff of experts to manage all phases of its environmental programs and uses outside experts where needed. The Company works to assure that its operations maintain compliance in all material respects with the applicable environmental laws, regulations, permits and licenses currently in effect. When Gerdau acquires new plants, it conducts an assessment of potential environmental issues and prepares a work plan in compliance with the local authorities.

The steel production process generates air and water emissions, as well as solid wastes, which may pose environmental hazards. The principal potential hazardous waste generated by current and past operations is electric arc furnace dust, a byproduct from the production of steel in electric arc furnaces. Gerdau installs baghouse filter systems in all facilities where it produces steel, which assures high levels of efficiency in terms of dust filtration and retention. The costs of collecting and disposing of electric arc furnace dust are expensed as operating costs when incurred. Environmental legislation and regulations at both the federal and state levels concerning electric arc furnace dust in any jurisdiction is subject to potential changes, which could increase the cost of compliance. The electric arc furnace dust generated by its current production processes is being collected, handled and disposed of in a manner that in all material respects meets all current federal, state and local environmental regulations.

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

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

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

- fines;

- partial or total suspension of operations;

- obligations to provide compensation for recovery works and environmental projects;

- forfeiture of or restrictions on tax incentives and benefits;

- closing of establishments or enterprises; and
- forfeiture or suspension of participation in credit lines with official credit agencies.

The steel industry uses and generates substances that may damage the environment. The Company's management performs frequent surveys with the purpose of identifying potentially impacted areas and records based on best cost estimate. The amounts estimated for investigation, treatment and cleaning of potentially affected sites, totaling R\$ 116,421 thousands as of December 31, 2014 (R\$ 23,025 thousands recorded in Current Liabilities and R\$ 93,396 thousands recorded in Non-Current Liabilities) and R\$ 105,663 thousands as of December 31, 2013 (R\$ 15,149 thousands recorded in Current Liabilities and R\$ 90,514 thousands recorded in Non-Current Liabilities). The Company used estimates and assumptions to determine the amounts involved, which can vary in the future, due to the final investigations and the determination of the actual environmental impact. See also Note 20 Environmental Liabilities.

As of December 31, 2014, the updated present value of the total remaining amount of Brazilian Environment Liabilities was estimated at R\$ 65.5 million. Some of these areas have already been recovered and some areas are still being evaluated.

Gerdau Ameristeel and Macsteel estimate clean-up costs based on a review of the anticipated remedial activities to be undertaken at each of their respective known contaminated sites. Although the ultimate costs associated with such remedies are not precisely known, the Company has estimated the present value of the total remaining costs as of December 31, 2014 at approximately R\$ 51 million, with these costs recorded as a liability in its financial statements.

Table of Contents

Brazilian Environmental Legislation

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

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

- fines that at the administrative level could reach as high as R\$50 million, depending on the violator's economic capacity and past record, as well as the severity of the facts and prior history, with the amounts potentially doubled or tripled in the case of repeat offenders;
- suspension of or interference in the activities of the respective enterprise; and
- loss of benefits, such as the suspension of government financing and the inability to qualify for public bidding processes and tax breaks.

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

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

North American Environmental Legislation

The Company is required to comply with a complex and evolving body of Environmental, Health and Safety Laws (EHS Laws) concerning, among other things, air emissions, discharges to soil, surface water and groundwater, noise control, the generation, handling, storage, transportation and disposal of toxic and hazardous substances and waste, the clean-up of contamination, indoor air quality and worker health and safety. These EHS Laws vary by location and can fall within federal, provincial, state or municipal jurisdictions.

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

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

Environmental Permits

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

Table of Contents

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

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

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

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

Areas of permanent forest preservation and legal reserves

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

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

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

ITEM 4A.

UNRESOLVED SEC STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in this Annual Report that have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information of Gerdau".

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

The primary factors affecting the Company's operating results include:

- Economic and political conditions in the countries in which Gerdau operates, specially Brazil and U.S.;
- The fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;
- The cyclical nature of supply and demand for steel products both inside and outside of Brazil, including the prices for steel products;
- The Company's level of exports; and
- The Company's production costs.

Table of Contents

Brazilian Economic Conditions

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

Since 2003, the Brazilian economy has become more stable, with significant improvement in the main indicators. The continuity of the macroeconomic policies focused on tax matters, the inflation-targeting system, the adoption of a floating foreign exchange rate, the increase in foreign investment and compliance with international financial agreements, including the full repayment of debt with the International Monetary Fund, contributed to the improved economic conditions in Brazil.

In 2012, Brazilian GDP grew by 1.0% (\$2.4 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 5.8%. The average CDI rate in the year was 6.9%. The Brazilian *real* depreciated by 8.9% against the U.S. dollar, ending the year at R\$2.04 to \$1.00.

In 2013, Brazilian GDP grew by 2.3% (\$ 4.8 trillion Nominal GDP). Inflation, as measured by the IPCA index, stood at 5.9%. The average CDI rate in the year was 9.8%. The Brazilian *real* depreciated by 14.6% against the U.S. dollar, ending the year at R\$2.34 to \$1.00.

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

Inflation affects Gerdau's financial performance by increasing operating expenses denominated in Brazilian *reais*. A significant portion of its costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate.

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

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

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

	2014	2013	2012
Actual GDP growth	0.1%	2.3%	1.0%
Inflation (IGP-M) (1)	3.7%	5.5%	7.8%
Inflation (IPCA) (2)	6.4%	5.9%	5.8%
CDI rate (3)	11.5%	9.8%	6.9%
6-month LIBOR	0.4%	0.3%	0.5%
Depreciation (appreciation) in the Brazilian <i>real</i> against the U.S. dollar	13.4%	14.6%	8.9%
Foreign exchange rate at end of period \$1.00	R\$ 2.6562	R\$ 2.4326	R\$ 1.8758
Average foreign exchange rate \$1.00 (4)	R\$ 2.3547	R\$ 2.1601	R\$ 1.6751

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

- (1) Inflation as measured by the General Market Price index (IGP-M) published by the Getúlio Vargas Foundation (FGV).
- (2) Inflation as measured by the Broad Consumer Price Index (IPCA) measured by Brazilian Institute of Geography and Statistics (IBGE).
- (3) The CDI rate is equivalent to the average fixed rate of interbank deposits recorded during the day in Brazil (annualized monthly cumulative figure at end of period).
- (4) Average of the foreign exchange rates, according to the Brazilian Central Bank, on the last day of each month in the period indicated.

Table of Contents**U.S. Economic Conditions**

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

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

In 2012, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.2% (\$15.7 trillion Nominal GDP), with a trade deficit of \$486.5 billion. Inflation, as measured by the CPI, was 2.0%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.14%.

In 2013, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.1% (\$16.2 trillion Nominal GDP), with a trade deficit of \$499.3 billion. Inflation, as measured by the CPI, was 1.8%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.11%.

In 2014, according to the IMF (International Monetary Fund) the U.S. Real GDP grew by 2.4% (\$17.4 trillion Nominal GDP), with a trade deficit of \$538.1 billion. Inflation, as measured by the CPI, was 1.6%. The average Fed Funds rate (the interest rate established by the U.S. Federal Reserve) was 0.09%.

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

	2014	2013	2012
Actual Real GDP growth (1)	2.4%	2.1%	2.2%
Inflation (CPI) (2)	1.6%	1.5%	2.1%
Fed Funds (3)	0.09%	0.11%	0.14%

Sources: International Monetary Fund and Federal Reserve Statistical Release

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

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

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

Impact of Inflation and Fluctuations in Exchange Rates

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

For many years, Brazil experienced high inflation rates that progressively eroded the purchasing power of the vast majority of the population. During periods of high inflation, effective salaries and wages tend to fall because the frequency and size of salary and wage adjustments for inflation usually do not offset the actual rate of inflation. Since the introduction of the Brazilian *real* in July 1994, the inflation rate in Brazil has decreased dramatically. The Brazilian GDP in the last three years presented an increase of 1.0% in 2012, 2.3% in 2013 and 0.1% in 2014.

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

Table of Contents

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

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

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

Over the last ten years, annual world crude steel production volume has varied from between approximately 1,144 million tonnes and 1.637 million tonnes. According to the worldsteel, world crude steel production in 2014 was 1,637 million tonnes, 1.1% higher than in 2013. China's crude steel production in 2014 reached 822.7 million tonnes, an increase of 0.9% over 2013. In 2014, China's share of world steel production was 50.3% of world total crude steel. According to worldsteel, world demand for finished steel products increased by grow 3.1% in 2013, is estimated to grow 2.0% in 2014, and the forecast for 2015 is a growth 2.0%.

International steel prices has declined around 42.0% over the last five years (2010-2014), this is due mainly to excess installed capacity in the world. International steel prices have experienced ups and downs throughout the period from the fourth quarter of 2007 and through the fourth quarter of 2009, when the average price per tonne of CIS export billet at Black Sea/Baltic Sea was an average of \$512 in the fourth quarter of 2007, skyrocketing to \$1,205 in June 2008, slumping to \$295 in March 2009 and reaching \$415 at the end of 2009. This swing in the steel price was mainly caused by the turmoil in the world economy and the surplus supply of steel products in a scenario of lower demand. During 2014, the average price has decreased 21.1% when compared to 2013, going from \$503 in 2013 to \$ 397 in 2014, due to the decrease in the iron ore prices, which have a strong correlation with the steel prices, and the slowdown in China's economic growth.

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

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

Source: Metal Bulletin and Bloomberg

Export levels - during periods of lower domestic demand for the Company's products, the Company actively pursues export opportunities for its excess production in order to maintain capacity utilization rates and shipments. During periods of higher domestic demand for its products, export sales volumes may decline as the Company focuses on satisfying domestic demand. Gerdau exports products from Brazil to customers in other continents with whom we have long-established commercial relations. In 2014, exports were 25.4% lower than in 2013, falling to 1,043 million tonnes (1,398 million tonnes in 2013), which represented 15.8% of all shipments by the Company's Brazilian units, in 2013 exports represented 19.2% of total shipments from Brazil operations. Export revenue totaled R\$ 1,659 million in 2014 (R\$ 2,190 million in 2013).

Table of Contents

Production costs - raw materials account for the highest percentage of the Company's production costs. Metallic inputs, which includes scrap, pig iron, iron ore, coke and metallic alloys, represented approximately 50.9% of production costs in 2014, while Energy and Reducing Agents, which represents the cost of coal, electricity, oxygen, natural gas and fuel oil, accounted for 12.3%. Personnel totaled 16.8% of production costs and Specific Materials, which includes refractories, electrodes, rolling cylinders, rollers, guides, carburants and lime, were 7.8% of total production costs. The table below presents the production costs breakdown by business operation (BO):

Production Costs Breakdown in 2014 (%)

% of costs	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Consolidated		Brazil BO		North America BO		Latin America BO		Special Steel BO	
Personnel	16.8	16.6	20.4	18.5	14.0	14.6	11.7	10.9	19.6	20.2
Maintenance	7.3	6.6	7.1	6.4	8.8	7.9	6.0	4.9	6.0	6.0
Depreciation	4.9	4.8	7.2	6.5	3.3	3.6	3.3	3.1	5.2	5.1
Metallic Inputs	50.9	50.6	36.9	38.4	59.5	59.2	64.0	66.7	47.3	46.6
Energy and Reducing Agents	12.3	13.2	21.4	22.7	6.5	6.8	9.7	9.0	11.9	11.3
Specific Materials	7.8	8.2	7.0	7.5	7.9	7.9	5.3	5.4	10	10.8

Significant events affecting financial performance during 2014

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

Starting from April 1, 2012, with the objective of eliminating the tax effect from the exchange variance of these debts, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located outside Brazil. As a result, the exchange variation on the amount of US\$2.9 billion (US\$2.7 billion related to the Ten/Thirty Years Bonds and US\$0.2 billion related to other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US\$ 1.0 billion is now recognized in income.

Impairment of assets In December 2014, the Company also performed impairment test for assets with definite useful life and it was identified in the Latin America segment an impairment loss of R\$ 339,374 thousand due to the lack of expected future use for those assets.

Gains in joint ventures operations - On October 8, 2014, the Company concluded the sale of the interest held of 50% on the jointly-controlled entity Gallatin Steel Company (Gallatin) for the amount of R\$ 937.8 million. Gallatin is a flat rolled mini-mill located in Gallatin County, Kentucky, USA that melts scrap, pig iron and hot briquetted iron from various sources, and processes the material to produce flat rolled steel.

The gain from the sale of this interest was R\$ 636,528 thousand and was recognized in Income, in the item Gains in Joint ventures operations .

Operating Results

The following presentation of the Company's operating results for the years ended December 31, 2014, 2013 and 2012 is based on the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) included in this Annual Report. References to increases or decreases in any year or period are made in relation to the corresponding prior year or period, except where stated otherwise.

Table of Contents

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

	2014		For the year ended December 31,				Variation 2014/ 2013	Variation 2013/ 2012
	R\$ million	% net sales	2013 R\$ million	% net sales	2012 R\$ million	% net sales		
Net sales	42,546	100.0%	39,863	100.0%	37,982	100.0%	6.7%	5.0%
Cost of Sales	(37,406)	(87.9)%	(34,728)	(87.1)%	(33,234)	(87.5)%	7.7%	4.5%
Gross profit	5,140	12.1%	5,135	12.9%	4,748	12.5%	0.1%	8.2%
Operating expenses:								
Selling expenses	(691)	(1.6)%	(659)	(1.7)%	(587)	(1.5)%	4.9%	12.3%
General and administrative expenses	(2,037)	(4.8)%	(1,953)	(4.9)%	(1,884)	(5.0)%	4.3%	3.6%
Other operating income	238	0.6%	318	0.8%	244	0.6%	(25.1)%	30.0%
Other operating expenses	(151)	(0.4)%	(141)	(0.4)%	(180)	(0.5)%	7.1%	(22.1)%
Impairment of assets	(339)	(0.8)%						
Gains in joint ventures operations	637	1.5%						
Equity in earnings of unconsolidated companies	102	0.2%	54	0.1%	8	0.0%	88.9%	546.5%
Net Income Before Financial Income								
(Expenses) and Taxes	2,899	6.8%	2,754	6.9%	2,349	6.2%	5.3%	17.3%
Financial income	276	0.6%	293	0.7%	317	0.8%	(5.8)%	(7.5)%
Financial expenses	(1,397)	(3.3)%	(1,054)	(2.6)%	(953)	(2.5)%	32.5%	10.6%
Exchange variations, net	(476)	(1.1)%	(544)	(1.4)%	(134)	(0.4)%	(12.5)%	305.7%
Gains and losses on financial instruments, net	36	0.1%	3	0.0%	(19)	0.0%	1100.0%	
Income and social contribution taxes	150	0.4%	241	0.6%	(63)	0.2%	(37.8)%	
Net income	1,488	3.5%	1,694	4.2%	1,496	3.9%	(12.1)%	13.2%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013*Net Sales*

Net Sales by Business Operations(*) (R\$ million)	Year ended	Year ended	Variation
	December 31, 2014	December 31, 2013	Year ended December 31, 2014/ December 31, 2013
Brazil	14,294	14,837	-3.7%
North America	14,049	12,562	11.8%
Latin America	5,670	5,366	5.7%
Special Steel	8,644	8,023	7.7%
Iron Ore	945	704	34.2%

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Intercompany Eliminations	(1,055)	(1,629)	
Total	42,546	39,863	6.7%

(*) The information does not include data from joint ventures and associate companies.

Table of Contents

Net Sales per tonne by Business Operations(*) (R\$/tonne)	Year ended December 31, 2014	Year ended December 31, 2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Brazil	2,171	2,038	6.5%
North America	2,283	2,044	11.7%
Latin America	2,162	1,912	13.1%
Special Steel	2,987	2,808	6.4%
Iron Ore	119	140	-15.0%
Consolidated(1)	2,381	2,153	10.6%

(*) The information does not include data from joint ventures and associate companies.

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

In 2014, consolidated net sales increased by 6.7% from 2013, due mainly to the impact of exchange variation on the translation of net sales from foreign companies into Brazilian real (9.0% average depreciation of the Brazilian real against the U.S. dollar). Excluding the exchange effect, net sales would have been relatively stable.

In the Brazil Business Operation, the 3.7% decline in net sales in 2014 compared to 2013 resulted chiefly from the 5.8% lower shipments in the domestic market, from 5,883 thousand tonnes in 2013 to 5,540 thousand tonnes in 2014, and the 25.4% reduction in exports, from 1,398 thousand tonnes in 2013 to 1,043 thousand tonnes in 2014. The lower shipments were partially offset by higher net sales per tonne sold in the domestic market (+4.3%). In the domestic market, the reduction in shipments was due to the lower level of activity in the construction and industrial sectors, reflecting weak GDP growth 0.1% in 2014). Lower exports in the period are explained by lower international prices and global steel oversupply.

In the North America Business Operation, net sales in 2014 were 11.8% higher than in 2013 due to exchange variation (9.0% average depreciation in the Brazilian real against the U.S. dollar) and, to a lesser extent, higher net sales per tonne sold, which grew 2.7% in U.S. dollar.

In the Latin America Business Operation, net sales in 2014 increased 5.7% from 2013, due to the exchange rate effect, with the depreciation of the Brazilian real against the currencies of most countries where Gerdau operates, despite the 6.6% contraction in shipments, from 2,808 thousand tonnes in 2013 to 2,623 thousand tonnes in 2014.

In the Special Steel Business Operation, net sales increased by 7.7% in 2014 compared to 2013, due mainly to the impact of exchange variation (9.0% average depreciation of the Brazilian real against the U.S. dollar) on sales at foreign units. Excluding this impact, net sales growth would have been similar to the 1.3% increase in shipments (2,857 thousand tonnes in 2013 to 2,894 thousand tonnes in 2014).

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In the Iron Ore Business Operation, the 34.2% increase in net sales in 2014 compared to 2013 is due to higher shipments (+58.9%), from 5,017 thousand tonnes in 2013 to 7,971 thousand tonnes in 2014, despite the lower international prices (IODEX SF 62% CFR China, Platt's 2013 average of US\$ 135/t and US\$ 97/t in 2014).

Table of Contents*Cost of Sales and Gross Profit*

Net sales, Cost of Sales and Gross Profit(*)		Year ended		Variation Year ended December 31, 2014/ Year ended December 31, 2013
		2014	2013	
Brazil	Net sales (R\$million)	14,294	14,837	(3.7)%
	Cost of Sales (R\$million)	(11,641)	(11,884)	(2.0)%
	Gross Profit (R\$million)	2,653	2,953	(10.1)%
	<i>Gross margin (%)</i>	<i>18.6%</i>	<i>19.9%</i>	
North America	Net sales (R\$million)	14,049	12,562	11.8%
	Cost of Sales (R\$million)	(13,093)	(11,919)	9.8%
	Gross Profit (R\$million)	956	643	48.6%
	<i>Gross margin (%)</i>	<i>6.8%</i>	<i>5.1%</i>	
Latin America	Net sales (R\$million)	5,670	5,366	5.7%
	Cost of Sales (R\$million)	(5,023)	(4,801)	4.6%
	Gross Profit (R\$million)	647	565	14.5%
	<i>Gross margin (%)</i>	<i>11.4%</i>	<i>10.5%</i>	
Special Steel	Net sales (R\$million)	8,644	8,023	7.7%
	Cost of Sales (R\$million)	(7,922)	(7,309)	8.4%
	Gross Profit (R\$million)	722	714	1.1%
	<i>Gross margin (%)</i>	<i>8.4%</i>	<i>8.9%</i>	
Iron Ore	Net sales (R\$million)	945	704	34.2%
	Cost of Sales (R\$million)	(788)	(441)	78.7%
	Gross Profit (R\$million)	157	263	(40.3)%
	<i>Gross margin (%)</i>	<i>16.6%</i>	<i>37.4%</i>	
Intercompany Eliminations	Net sales (R\$million)	(1,055)	(1,629)	
	Cost of Sales (R\$million)	1,060	1,627	
	Gross Profit (R\$million)	5	(2)	
Total	Net sales (R\$million)	42,546	39,863	6.7%
	Cost of Sales (R\$million)	(37,406)	(34,728)	7.7%
	Gross Profit (R\$million)	5,140	5,135	0.1%
	<i>Gross margin (%)</i>	<i>12.1%</i>	<i>12.9%</i>	

(*) The information does not include data from joint ventures and associate companies.

In 2014, cost of sales increased by 7.7% from 2013, due mainly to the impact of exchange variation on the translation of the cost of sales at foreign companies into Brazilian real. Excluding the exchange effect, cost of sales would have increased slightly. Gross margin contracted from 12.9% in 2013 to 12.1% in 2014, due to the reduction in gross profit and gross margin from the Brazil Business Operation, which was partially offset by higher gross profit and gross margin from the North America Business Operation.

In the Brazil Business Operation, cost of sales decreased by 2.0% in 2014 compared to 2013, due to lower shipments (-9.6%). The reduction in cost of sales was lower than the decline in net sales (-3.7%) due to the lower dilution of fixed costs (payroll plus maintenance accounted for 24.9% of production costs in 2013 and 27.6% in 2014), leading to a decline in gross margin, from 19.9% in 2013 to 18.6% in 2014.

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In the North America Business Operation, cost of sales in 2014 was 9.8% higher than in 2013 due to exchange variation (9.0% average depreciation in the Brazilian real against the U.S. dollar). The higher increase in net sales than in the cost of sales led to gross margin expansion in the period, from 5.1% in 2013 to 6.8% in 2014.

In the Latin America Business Operation, cost of sales in 2014 increased 4.6% from 2013, due to the exchange rate effect, with the depreciation of the Brazilian real against the currencies of most countries where Gerdau operates, despite the 6.6% contraction in shipments. Gross margin expansion from 10.5% in 2013 to 11.4% in 2014 resulted from net sales growth outpacing the increase in cost of sales, driven by improved gross margin in the Colombia and Peru units.

In the Special Steel Business Operation, the 8.4% increase in cost of sales was driven by exchange variation (depreciation of the Brazilian real against the currencies of most countries where Gerdau operates) on costs at the foreign units and higher cost per tonne in the units in Brazil, due to lower capacity utilization rates in the comparison periods (from 77% in 2013 to 71% in 2014) and the consequent lower dilution of fixed costs. These effects resulted in a slight gross margin contraction, from 8.9% in 2013 to 8.4% in 2014.

In the Iron Ore Business Operation, cost of sales in 2014 increased 78.7% from 2013, due to the increased share of shipments to third parties out of total shipments (from 24.8% in 2013 to 44.7% in 2014). Shipments to third parties incur higher logistics costs compared shipments to Gerdau units (e.g. railway costs, port fees and maritime freight). Gross margin contraction from 37.4% in 2013 to 16.6% in 2014 is explained by the significant decline in international prices (IODEX SF 62% CFR China, Platt's 2013 average of 2013 US\$ 135/t and US\$ 97/t in 2014).

Table of Contents*Selling, General and Administrative Expenses*

Operating Expenses(*) (R\$ million)	2014	2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Selling expenses	691	659	4.9%
General and administrative expenses	2,037	1,953	4.3%
Total	2,728	2,612	4.4%
Net sales	42,546	39,863	6.7%
% of net sales	6.4%	6.6%	

(*) The information does not include data from joint ventures and associate companies.

The 4.4% increase in the absolute value of selling, general and administrative expenses was mainly due to the exchange variation impact on expenses of foreign operations, while these expenses remained relatively stable as a percentage of net sales, thanks to efforts by the Company's management, especially in a year when costs were pressured and the Brazilian real lost value, all of which impact the translation of these expenses from our international operations into Brazilian real.

Other operating income (expenses), Impairment of assets, Gain in joint ventures operations and Equity in earnings of unconsolidated companies

The reduction in other operating income (expenses) in 2014 compared to 2013 is due to the sale of commercial properties in Brazil for R\$98.6 million, recorded in the fourth quarter of 2013.

The line Impairment of assets recorded in 2014 refers to certain assets of the Latin American Business Operation that are not expected to be used, identified through impairment tests.

The line Gain in joint ventures operations recorded in 2014 includes the sale of the 50% interest held in Gallatin Steel Company on October 8, 2014.

Jointly controlled entities and associate companies, whose results are calculated using the equity method, recorded steel shipments of 1.1 million tonnes in 2014, based on their respective equity interests. These shipments generated net sales of R\$2.2 billion, or 12.4% more than in 2013. Based on these companies' results, equity income was a gain of R\$101.9 million in 2014, versus a gain of R\$54.0 million in 2013.

Income before Financial Income (Expenses) and Taxes

Operating Income before Financial Result and Taxes increased from R\$2,754 million in the fiscal year ended December 31, 2013 to R\$2,899 million in 2014 though gross profit remained stable. The increase was chiefly due to the gain from the sale of Gallatin Steel Company, which was partially impacted by impairment of asset losses.

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

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R\$ million)	2014	2013	Variation Year ended December 31, 2014/ Year ended December 31, 2013
Financial income	276	293	(5.8)%
Financial expenses	(1,397)	(1,053)	32.7%
Exchange variation, net	(476)	(544)	(12.5)%
Gains and Losses on financial instruments, net	36	3	1,100.0%
Total	(1,561)	(1,301)	20.0%

(*) The information does not include data from joint ventures and associate companies.

Table of Contents

The higher financial expense in 2014 of R\$ 1.4 billion compared to 2013 in the amount of R\$1.1 billion is due to higher financial expenses derived from the increase in gross debt from R\$ 16.7 billion on December 31, 2013 to R\$ 19.5 billion on December 31, 2014.

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

Income and Social Contribution Taxes

Income tax had an impact in the net income of R\$150 million in 2014, compared to R\$241 million in 2013. The change is due mainly to the recognition of the effects of joining the Refis tax amnesty program on profits generated abroad in the net amount of expense of R\$87.8 million in 2014, and the reduction in tax benefit due to the lower amounts paid as interest on equity (R\$119.8 million in 2013 and R\$76.9 million in 2014), netted by the decrease in the net income before taxes .

Net Income

Consolidated net income decreased by 12.1% in 2014 compared to 2013, despite the higher operating income that includes specific events described in Other operating income (expenses), Impairment of assets, Gain in joint ventures operations and Equity in earnings of unconsolidated companies.

In the Brazil Business Operation, net income was R\$959 million in 2014, 37.6% lower than in 2013, due to the lower gross profit and higher financial expenses in the period.

The North America Business Operation recorded net income of R\$691 million in 2014, compared to net income of R\$19 million in 2013, as a consequence of the gain from the sale of Gallatin Steel Company (R\$415 million, net of income tax) and the higher gross profit in the comparison period.

In 2014, the Latin America Business Operation recorded a net loss of R\$162 million, compared to net income of R\$104 million in 2013, as a result of the impairment of asset loss of R\$339 million, which was partially offset by higher gross profit in the period.

In 2014, the Special Steel Business Operation recorded net income of R\$123 million, 21.7% lower than in 2013, due to the higher financial expense and higher selling, general and administrative expenses.

The Iron Ore Business Operation posted net income of R\$55 million in 2014, 67.4% lower than in 2013, due to the lower gross profit in the period.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Net Sales

Net Sales by Business Operations(*) (R\$ million)	Year ended December 31, 2013	Year ended December 31, 2012	Variation Year ended December 31, 2013/ Year ended December 31, 2012
Brazil	14,837	14,028	5.8%
North America	12,562	12,450	0.9%
Latin America	5,366	4,964	8.1%
Special Steel	8,023	7,389	8.6%
Iron Ore	704	491	43.4%
Intercompany Eliminations	(1,629)	(1,340)	
Total	39,863	37,982	5.0%

(*) The information does not include data from joint ventures and associate companies.

Table of Contents

Net Sales per tonne by Business Operations(*) (R\$/tonne)	Year ended December 31, 2013	Year ended December 31, 2012	Variation Year ended December 31, 2013/ Year ended December 31, 2012
Brazil	2,038	1,925	5.9%
North America	2,044	1,924	6.2%
Latin America	1,912	1,834	4.2%
Special Steel	2,808	2,781	1.0%
Iron ore	140	111	26.1%
Consolidated(1)	2,153	2,043	5.4%

(*) The information does not include data from joint ventures and associate companies.

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

In 2013, consolidated net sales grew 5.0% in relation to 2012, mainly due to the increase in net sales per tonne shipped at all business operations (5.4% on a consolidated basis), despite the 0.4% reduction in shipments. The higher net sales per tonne shipped also reflect the effects of exchange variation on the net sales of Gerdau's operations abroad (10.4% depreciation in the Brazilian *real* against the U.S. dollar based on the average exchange rate in the period).

In the Brazil Business Operation, net sales grew 5.8% driven primarily by higher shipments to the domestic market, which increased from 5,320 thousand tonnes in 2012 to 5,883 thousand tonnes in 2013, an increase of 10.6%. This increase in the domestic market was driven mainly by the improvement in the manufacturing industries served by Gerdau (which accounted for around 42% of the sales of this Operation in 2012 and went to approximately 47% in 2013), after a long period of low demand and by continued good demand from the commercial construction and infrastructure sectors. Consequently, this better sales mix (higher sales in the domestic market and reduction of exports) resulted in higher net sales per tonne sold. The 29.4% reduction of exports, going from 1,979 thousand tonnes in 2012 to 1,398 thousand tonnes in 2013, occurred due to the continued low demand in the international market and excess crude steel capacity in the world.

In the Special Steel and Latin America Business Operations, net sales grew, respectively, 8.6% and 8.1%. In the Special Steel Business Operation, the higher net sales was mainly due to the 7.5% recovery in shipments, driven by the improvement in Brazil's heavy vehicle industry, following implementation of the Euro 5 emissions standard, in addition to the shipments resulting from the first year of operations of the mill in India. In the Latin America Business Operations, the increase in net sales was due to the 3.7% higher shipments in the period, which was driven by the solid economic growth observed in the countries in which Gerdau operates, led by Peru (PIB +5.0%) and Colombia (PIB +4.0%). Moreover, net sales per tonne sold grew by 4.2%, influencing the increase in net sales from this Operation.

In the North America Business Operation, net sales were virtually stable (+0.9%), with the increase in net sales per tonne sold (+6.2%) offsetting the reduction of 5.1% in shipments. This reduction in shipments is explained by the market's slow growth in 2013 and by the growing share of imported products due to the stronger U.S. dollar. It is important to note that the net sales per tonne sold was influenced by exchange variation in the period (depreciation of 10.5% in the Brazilian *real* against the U.S. dollar, average in period).

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In the Iron Ore Business Operation, net sales increased by 43.4% due to higher sales which increased from 4,399 thousand tonnes in 2012 to 5,017 thousand tonnes in 2013, an increase of 14.0%, besides an increased of 26.1% in net sales per tonne.

Table of Contents*Cost of Sales and Gross Profit*

Net sales, Cost of Sales and Gross Profit(*)		Year ended December 31,		Variation Year ended December 31, 2013/ Year ended December 31, 2012
		2013	2012	
Brazil	Net sales (R\$million)	14,837	14,028	5.8%
	Cost of Sales (R\$million)	(11,884)	(11,800)	0.7%
	Gross Profit (R\$million)	2,953	2,228	32.5%
	<i>Gross margin (%)</i>	<i>19.9%</i>	<i>15.9%</i>	
North America	Net sales (R\$million)	12,562	12,450	0.9%
	Cost of Sales (R\$million)	(11,919)	(11,453)	4.1%
	Gross Profit (R\$million)	643	997	(35.5)%
	<i>Gross margin (%)</i>	<i>5.1%</i>	<i>8.0%</i>	
Latin America	Net sales (R\$million)	5,366	4,964	8.1%
	Cost of Sales (R\$million)	(4,801)	(4,636)	3.6%
	Gross Profit (R\$million)	565	329	71.7%
	<i>Gross margin (%)</i>	<i>10.5%</i>	<i>6.6%</i>	
Special Steel	Net sales (R\$million)	8,023	7,389	8.6%
	Cost of Sales (R\$million)	(7,309)	(6,421)	13.8%
	Gross Profit (R\$million)	714	968	(26.2)%
	<i>Gross margin (%)</i>	<i>8.9%</i>	<i>13.1%</i>	
Iron Ore	Net sales (R\$million)	704	491	43.4%
	Cost of Sales (R\$million)	(442)	(250)	76.4%
	Gross Profit (R\$million)	263	241	9.1%
	<i>Gross margin (%)</i>	<i>37.4%</i>	<i>49.1%</i>	
Intercompany Eliminations	Net sales (R\$million)	(1,629)	(1,340)	
	Cost of Sales (R\$million)	1,627	1,325	
	Gross Profit (R\$million)	(2)	(15)	
Total	Net sales (R\$million)	39,863	37,982	5.0%
	Cost of Sales (R\$million)	(34,728)	(33,234)	4.5%
	Gross Profit (R\$million)	5,135	4,748	8.2%
	<i>Gross margin (%)</i>	<i>12.9%</i>	<i>12.5%</i>	

(*) The information does not include data from joint ventures and associate companies.

In fiscal year 2013, consolidated cost of goods sold was 4.5% higher than in 2012, which was partially due to the higher costs per tonne shipped resulting from the effects of exchange variation on costs of Gerdau's operations abroad (10.4% depreciation in the Brazilian real against the U.S. dollar based on the average exchange rate in the period). The increase is also explained by the lower dilution of fixed costs due to the 4.8% decrease in crude steel production. Given the lower production in the period, the cost of metal inputs represented 43.8% of consolidated cost of goods sold in 2013, compared to 48.8% in 2012. Despite the 4.5% increase in cost of goods sold, gross margin expanded slightly, from 12.5% in 2012 to 12.9% in 2013, due to the 5.0% increase in net sales.

In the Brazil Business Operation, gross margin increased from 15.9% in 2012 to 19.9% in 2013, due to the 5.8% growth in net sales in the same period compared, once the cost of sales presented relative stability (+ 0.7%).

In the North America Business Operation, the 4.1% increase in cost of goods sold was due to the translation of amounts in U.S. dollar (the transaction currency of this Business Operation) into Brazilian real (10.4% depreciation in the Brazilian *real* against the U.S. dollar based on the average exchange rate in the period). Based on the transaction currency of this Business Operation, cost of goods sold decreased 5.9%, reflecting the 5.1% decrease in shipments. Given that, in the Company's functional currency, the growth in cost of goods sold outpaced the growth in net sales, gross margin contracted from 8.0% in 2012 to 5.1% in 2013.

In the Latin America Business Operation, the 3.6% increase in cost of goods sold was due to the 3.7% growth in shipments. Gross margin expanded from 6.6% in 2012 to 10.5% in 2013, which is explained by the higher dilution of fixed costs (personnel plus maintenance costs corresponded to 16.4% of the production costs of this operation in 2012 and to 15.8% in 2013) resulting from the higher shipments in the period, as well as by the increase of 4.2% in net sales per tonne shipped.

In the Special Steel Business Operation, the 13.8% increase in cost of goods sold was due to higher shipments in the period (+7.5%) and to the higher costs associated with the learning curve at the India operation, which started its steel production activities in early 2013. These higher production costs combined with the lower net sales per tonne shipped at the units in Spain and the United States led to contraction in gross margin, from 13.1% in 2012 to 8.9% in 2013.

In Iron Ore Business Operation, the cost of sales in 2013 when compared with 2012 presented an increase of 76.4% due to the third parties sales, which didn't exist in 2012 and came to represent 24.8% of total sales in 2013. Shipments to third parties incur higher logistics costs compared to shipments to Gerdau units (e.g. railway costs, port fees and maritime freight). The higher increase in the cost of sales than in net sales led to gross margin decrease in the period, from 49.1% in 2012 to 37.4% in 2013.

Table of Contents*Selling, General and Administrative Expenses*

Operating Expenses(*) (R\$ million)	2013	2012	Variation Year ended
			December 31, 2013/ Year ended December 31, 2012
Selling expenses	659	587	12.3%
General and administrative expenses	1,953	1,884	3.7%
Total	2,612	2,471	5.7%
Net sales	39,863	37,982	5.0%
% of net sales	6.6%	6.5%	

(*) The information does not include data from joint ventures and associate companies.

The increase of 5.7% in the absolute value of selling, general and administrative expenses was mainly due to the increase of 12.3% in selling expenses related to the Company's marketing campaigns, most of which were implemented in Brazil. Despite this increase, selling, general and administrative expenses as a ratio of net revenue remained virtually stable in 2013 compared to 2012, which reflects the Company's cost management efforts. This was especially relevant given that the year was marked by cost pressures and the depreciation in the Brazilian *real*, with the latter adversely affecting these expenses in our international operations when translated into Brazilian *real*.

Equity in Earnings of Unconsolidated Companies

The joint ventures and associate companies, whose results are calculated using the equity method, recorded steel shipments of 1.1 million tonne in 2013, based on their respective equity interests. The amount of shipments was in line with the previous year and generated net sales of R\$1.9 billion, or 7.3% more than in 2012.

Based on these companies' results, equity income was a gain of R\$54.0 million in 2013, versus a gain of R\$8.4 million in 2012.

Income before Financial Income (Expenses) and Taxes

The Net Income before Financial Results and Taxes increased from R\$2,348 million in 2012, to R\$2,754 million in the fiscal year ended December 31, 2012, basically due to the higher gross profit, as explained in the section *Cost of Sales and Gross Profit*. In addition, in 2013, the Company recorded in the line *other operating income*, a gain of R\$ 99 million related to divestment of commercial properties. This property sale is aligned with the Company's objective in focusing on the strength of its balance sheet and improving the return on its assets.

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

Financial Income, Financial Expenses, Exchange Variations, net and Gain and Losses on derivatives, net(*) (R\$ million)	2013	2012	Variation Year ended December 31, 2013/ Year ended December 31, 2012
Financial income	293	317	(7.6)%
Financial expenses	(1,053)	(953)	10.5%
Exchange variation, net	(544)	(134)	306.0%
Gains and Losses on financial instruments, net	3	(19)	
Total	(1,301)	(789)	64.9%

(*) The information does not include data from joint ventures and associate companies.

In 2013, the higher negative financial result, when compared to 2012, was mainly due to the effects from exchange variation on the liabilities contracted in currencies other than the Brazilian *real*, mainly the U.S. dollar (depreciation of 10.5% in the Brazilian *real* against the U.S. dollar, average in period), and, to a lesser extent, to the higher financial expense resulting from the increase in the average interest rate between the comparison periods, which went from 5.9% in the first quarter of 2013 to 6.5% in the last quarter of 2013.

Table of Contents

Note that, in accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located outside Brazil. As a result, the exchange variation on the amount of US\$ 2.6 billion (US\$ 2.4 billion from the Ten Year Bonds plus US\$ 0.2 billion from other financing operations) was recognized in the statement of comprehensive income, while the exchange variation on the portion of US\$ 1.0 billion is now recognized in income.

Income and Social Contribution Taxes

Provision for income tax was positive in R\$ 241 million in 2013, compared to negative R\$ 63 million in 2012. The variation was primarily due to the difference in tax rates in foreign companies, which includes the tax impact of the Company hedging strategy (as mentioned in the item Financial Income, Financial Expenses, Exchange Variations, net and Gains and Losses in Derivatives, net), of R\$ 323 million in 2013 compared to R\$ 134 million in 2012. Also, there was a positive impact on tax benefit on interest on equity in the amount of R\$ 119,773 in 2013, compared to R\$ 40,264 in 2012, and the capital gain taxes, which was R\$ 122,121 in 2012.

Net Income

Consolidated net income increased by 13.2% in 2013 compared to 2012, mainly due to the improvement in operating results, partially offset by the higher negative financial result.

In the Brazil Business Operation, net income was R\$1,537 million in 2013, 59.9% higher than in 2012, mainly due to the better operational result in the period.

The North America Business Operation recorded, in 2013, net income of R\$ 19 million, compared to net income of R\$ 324 million in 2012, reflecting the decreases in operating income between the periods.

In 2013, the Latin America Business Operation recorded a net income of R\$ 104 million, compared to net loss of R\$ 42 million in 2012, reflecting the better operating result.

In 2013, the Special Steel Business Operation recorded net income of R\$ 157 million, 56.7% lower than in 2012, reflecting the lower operating income, especially from the operations in Spain and United States, in addition to the negative impact from the learning curve of the mill in India.

The Iron Ore Business Operation recorded net income of R\$ 168 million in 2013, or 3.7% more than in 2012, due to the better operational result in the period, partially impacted by the increase in selling, general and administrative expenses.

Critical Accounting Policies

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

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

Table of Contents

a) Deferred Income and Social Contribution Tax

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

The realization of deferred tax assets for tax loss carryforwards are supported by projections of taxable income based on technical feasibility studies submitted annually to the Company's Board of Directors. These studies consider historical profitability of the Company and its subsidiaries and expectation of continuous profitability and estimated the recovery of deferred tax assets over future years. The other tax credits arising from temporary differences, mainly tax contingencies, and provision for losses, were recognized according to their estimate of realization.

b) Pension and Post-Employment Benefits

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

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

- i)** The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit of credit method and management's best estimate of expected investment performance for funded plans, salary increase, retirement age of employees and expected health care costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date on high-quality fixed-income investments with maturities that match the expected maturity of obligations.
- ii)** Pension plan assets are stated at fair value.
- iii)** Gain and losses related to the curtailment and settlement of the defined benefit plans are recognized when the curtailment or settlement occurs and they are based on actuarial evaluation done by independent actuaries.

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

or shorter participant life spans.

c) Environmental Liabilities

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

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

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

Table of Contents

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

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

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

e) Business Combination

Step-acquisitions in which control is obtained

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

Acquisitions in which control is obtained initially

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

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

recognized in profit or loss.

Increases/decreases in non-controlling interests

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

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

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

Table of Contents

Loss of control of a subsidiary

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

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

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

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

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

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

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

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

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

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

Recoverability of goodwill is evaluated at each balance sheet reporting date based on the analysis and identification of facts and circumstances that can indicate the necessity to also perform an impairment test at an interim date. If some fact or circumstance indicates that the recoverability of goodwill may be impaired as of an interim period, then the test is performed. In December 2014, the Company carried out goodwill impairment tests for all of its operating segments, which represent the lowest level at which goodwill is monitored by management based on projections for discounted cash flows and that take into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans and long-term economic-financial forecasts.

In December 2014, the Company performed an impairment test for the goodwill on the operating segments and no impairment loss was identified for the year.

In December 2014, the Company also performed impairment test for assets with definite useful life in the Latin America segment and the tests identified a loss of R\$ 339,374 thousand due to the lack of expected future use for those assets.

The projection period for the December 2014 cash flows was five years. The premises used to determine the fair value through the discounted cash flow method include: projected cash flow based in the Management estimates to the future cash flows, discount rates and growth rates to the perpetuity determination. Moreover, the perpetuity was calculated considering the stabilization of the operational margins, levels of working capital and investments. The perpetuity growth rate considered was 3% p.a. for the Brazil, Latin America, Specialty Steels and North America segment.

Table of Contents

The pre-tax discount rates used were determined taking into consideration market information available on the test date. The Company adopted distinct rates to each business segment tested with the objective of demonstrating the differences among the markets in which each segment operates, as well as risk associated to them. The pre-tax discount rates used were 11.4% p.a. for the North America segment (11.8% in December, 2013), 12.5% p.a. for the Special Steel segment (12.5% in December, 2013), 11.9% p.a. for Latin America segment (13.3% in December, 2013) and 13.9% p.a. for the Brazil segment (14.5% in December, 2013).

Considering the recoverable amount identified through the discounted cash flows, the recoverable amount exceeded the book value by R\$ 1,699 million for the North America segment (R\$ 1,244 million in December 2013), R\$ 1,591 million for the Special Steel segment (R\$ 1,661 million in December 2013), R\$ 668 million for the Latin America segment (R\$ 431 million in December 2013), and R\$ 3,103 million for the Brazil segment (R\$ 10,225 million in December 2013).

Due to the cash flow potential impact of discount rate and perpetuity growth rate variables, the Company performed a sensitivity analysis for changes in these variables. A 0.5% increase in the discount rate to the cash flow of each segment would result in recoverable amounts that would exceed the book value by R\$ 394 million for the North America segment (R\$ 94 million in December 2013), R\$ 785 million for the Special Steel segment (R\$ 942 million in December 2013), R\$ 2,073 million for the Brazil segment (R\$ 8,826 million in December 2013) and R\$ 186 million for the Latin America segment (R\$ 7 million in December 2013).

On the other hand, a 0.5% decrease in the perpetuity growth rate in the discounted cash flow to each segment would result in recoverable amounts that would exceed the book value by R\$ 678 million for the North America segment (R\$ 361 million in December 2013), R\$ 976 million for the Special Steel segment (R\$ 1,127 million in December 2013), R\$ 2,365 million for the Brazil segment (R\$ 9,232 million in December 2013) and R\$ 310 million for the Latin America segment (R\$ 124 million in December 2013).

As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount lower than the book value by R\$ 458 million for the North America segment (R\$ 651 million in December 2013) and R\$ 122 million for the Latin America segment (R\$ 259 million in December 2013). As of December 31, 2014, a combination of the sensitivity analysis described in the paragraphs above would result in a recoverable amount that would exceed the book value by R\$ 1,436 million in the Brazil segment (R\$ 8,077 million in December 2013) and R\$ 262 million for the Special Steel segment (R\$ 484 million in December 2013).

Goodwill that forms part of the carrying amount of an investment in an associate or in a joint venture is not separately recognized and it is not tested for impairment separately. Instead, the entire carrying amount of the investment in an associate or in a joint venture is tested for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Goodwill originated in a business combination is evaluated for recoverability on an annual basis, and also when events or circumstances indicate the necessity. The test considers accepted market practices, including cash flows and compares the book value with its fair value. The reversal of goodwill impairment losses previously recognized from business combinations is not allowed. Annually, in December, the Company performs impairment tests for all operating segments, which represents the lowest level in which goodwill is monitored by management.

The recoverability review process is subjective and requires significant judgments through analysis performed. The determination of fair value for the Company's operating segments, based on projected cash flows, may be negatively impacted if the economic global recovery happens slower than what management expected during the preparation of financial statements in December 2014.

Additional information related to impairment of goodwill and other long lived assets are described at note 27 of Consolidated Financial Statements contained herein.

B. LIQUIDITY AND CAPITAL RESOURCES

Gerdau's usual main source of liquidity is the cash generated by its operating activities. Moreover, the Company counts on committed credit facilities. The Company expects to meet its cash needs for 2015 primarily through a combination of operating cash flow, cash and cash equivalents and short-term investments.

Table of Contents**Cash Flow**

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

GERDAU S.A.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the years ended December 31, 2014, 2013 and 2012

In thousands of Brazilian reais (R\$)

	2014	2013	2012	Variation 2014/2013	Variation 2013/2012
Cash flows from operating activities					
Net income for the year	1,488,373	1,693,702	1,496,240	(12.1)%	13.2%
Adjustments to reconcile net income for the year to net cash provided by operating activities					
Depreciation and amortization	2,227,396	2,029,507	1,827,499	9.8%	11.1%
Impairment of Assets	339,374				
Equity in earnings of unconsolidated companies	(101,875)	(54,001)	(8,353)	88.7%	546.5%
Exchange variation, net	476,367	544,156	134,128	(12.5)%	305.7%
(Gains) Losses on financial instruments, net	(36,491)	(2,854)	18,547	1,178.6%	
Post-employment benefits	200,699	95,514	38,665	110.1%	147.0%
Stock based remuneration	39,614	38,223	36,699	3.6%	4.2%
Income tax	(150,389)	(241,056)	63,222	(37.6)%	
(Gains) Losses on disposal of property, plant and equipment and investments	(48,639)	(133,593)	7,890	(63.6)%	
Gains in Joint ventures operations	(636,528)				
Allowance for doubtful accounts	49,890	47,345	50,084	5.4%	(5.5)%
Provision for tax, labor and civil claims	281,876	205,167	171,264	37.4%	19.8%
Interest income on investments	(144,723)	(135,040)	(155,638)	7.2%	(13.2)%
Interest expense on loans	1,178,034	901,273	811,416	30.7%	11.1%
Interest on loans with related parties	(2,743)	(1,573)	(1,594)	74.4%	(1.3)%
Provision for net realisable value adjustment in inventory	63,440	56,752	141,121	11.8%	(59.8)%
Release of allowance for inventory against cost upon sale of the inventory	(69,502)	(61,453)	(86,710)	13.1%	(29.1)%
	5,154,173	4,982,069	4,544,480	3.5%	9.6%
Changes in assets and liabilities					
(Increase) Decrease in trade accounts receivable	(36,468)	(23,790)	168,134	53.3%	
(Increase) Decrease in inventories	(173,191)	1,018,398	(264,366)		(485.2)%
Decrease in trade accounts payable	(251,911)	(128,942)	(522,870)	95.4%	(75.3)%
(Increase) Decrease in other receivables	(701,550)	120,645	(664,819)		
Increase (Decrease) in other payables	280,187	162,863	(314,906)	72.0%	
Dividends from jointly-controlled entities	95,600	63,073	47,667	51.6%	32.3%
Purchases of trading securities	(3,028,974)	(3,360,144)	(2,060,511)	(9.9)%	63.1%

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Proceeds from maturities and sales of trading securities	2,544,895	2,481,935	4,444,636	2.5%	(44.2)%
Cash provided by operating activities	3,882,761	5,316,107	5,377,445	(27.0)%	(1.1)%
Interest paid on loans and financing	(859,821)	(810,362)	(698,070)	6.1%	16.1%
Income and social contribution taxes paid	(452,079)	(407,333)	(335,328)	11.0%	21.5%
Net cash provided by operating activities	2,570,861	4,098,412	4,344,047	(37.3)%	(5.7)%

Table of Contents

Cash flows from investing activities					
Additions to property, plant and equipment	(2,266,702)	(2,598,265)	(3,127,256)	(12.8)%	(16.9)%
Proceeds from sales of property, plant and equipment, investments and other intangibles	1,067,938	237,203	35,334	350.2%	571.3%
Additions to other intangibles	(141,956)	(158,395)	(156,805)	(10.4)%	1.0%
Advance for capital increase in jointly-controlled entity		(77,103)	(206,214)		(62.6)%
Cash and cash equivalents consolidated in business combinations			16,916		
Payment for business acquisitions, net of cash of acquired entities		(55,622)			
Increase in controlling interest in associated companies		(51,383)			
Net cash used in investing activities	(1,340,720)	(2,703,565)	(3,438,025)	(50.4)%	(21.4)%
Cash flows from financing activities					
(Reduction) Increase of capital by non-controlling interests	(550,000)	383,788	(116,685)		
Purchase of treasury shares					