



Integrated Report 2017

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ABOUT THE REPORT

GerdaU presents in its Integrated Report for 2017 its activities in the economic, social and environmental areas, as well as the digital-innovation initiatives that are revolutionizing its day-to-day operations and its management efforts to boost profitability and create value for shareholders.

This document, which was prepared based on the framework suggested by the International Integrated Reporting Council (IIRC), compiles information on GerdaU's strategic management to strengthen the relationship among its human, social, natural, intellectual and financial capital.

Adopting the Integrated Reporting framework for the second year attests to GerdaU's efforts to continually improve its transparency and strengthen its stakeholder relations.





02

MESSAGES

CLAUDIO JOHANNPETER

Gerdaу's Chairman of the Board

ENHANCED GOVERNANCE SUPPORTS GERDAU'S TRANSFORMATION

For 117 years, Gerdaу has surmounted challenges while rapidly adapting its business to market fluctuations. Given the complex scenario the world steel industry has faced in recent years, with overcapacity, strong import flows in its key markets and a recession in Brazil, Gerdaу has once again reinvented itself. The intensive management efforts in all operations, combined with the gains captured from optimizing assets, from the digital innovation implemented and from modernizing the corporate culture, are all reflected in Gerdaу's performance and profitability.

However, we must take yet another step: modernizing the company's governance. This decision, like all other successions over Gerdaу's centennial history, has been carefully planned over two years. We decided that the members of the fifth generation of the Gerdaу Johannpeter family would now dedicate themselves exclusively to the Boards of Directors of Gerdaу S.A. and Metalúrgica Gerdaу S.A., on which they already serve.

After meticulously analyzing candidates to serve as our Chief Executive Officer, we concluded that the professional we were

looking already was on our team. We chose Gustavo Werneck, then Executive Officer of the Brazil Business Division, to lead the company in this new cycle. We are confident in Gustavo's unique management capacity and in his ability to help shape Gerdaу's new corporate culture. In all prior positions, he has been results-oriented, overcame important challenges, leveraged results and formed high-performance teams, supported by his innovative management profile and contagious energy.

Therefore, as of 2018, we will draw on our executive experience to focus more on formulating Gerdaу's medium- and long-term strategy to create value for our stakeholders while supporting our executives in its implementation. Lastly, I thank the other members of the Board of Directors, Advisory Board, Audit Board, Executive Committee for their contributions and all employees for their hard work and commitment to transforming Gerdaу into one of the world's most innovative steel companies.



“ IN 2018, WE WILL DRAW ON OUR EXECUTIVE EXPERIENCE TO FOCUS MORE ON FORMULATING GERDAU'S MEDIUM- AND LONG-TERM STRATEGY TO CREATE VALUE FOR OUR STAKEHOLDERS WHILE SUPPORTING OUR EXECUTIVES IN ITS IMPLEMENTATION. ”



ANDRÉ GERDAU JOHANNPETER

Gerdau's Chief Executive Officer
in 2017

STRONGER STEEL DEMAND AND MANAGEMENT EFFORTS TRANSLATE INTO BETTER FINANCIAL PERFORMANCE

The transformation Gerdau is undergoing, combined with the improvement in industry fundamentals, leveraged its financial performance in the fiscal year. Net revenue reached R\$ 37 billion, growing slightly on the prior year. Adjusted EBITDA advanced 7% to R\$ 4.3 billion, while adjusted net income grew from R\$ 91 million in 2016 to R\$ 522 million in 2017.

Another period highlight was the digital innovation and associated gains, which already are being reflected in our performance. One example is the reduction in selling, general and administrative expenses of nearly R\$ 600 million in 2017. Another significant result of our management efforts was the reduction in financial leverage, with gross debt down by R\$ 4.1 billion and net debt down by 10%. As a result, the net debt / EBITDA ratio decreased to 2.98x, from 3.5x a year earlier. We also generated R\$ 1.5 billion in free cash flow in the year, in line with the capital discipline strategy implemented by the company.

Our divestment plan reached R\$ 6.3 billion in economic value over the last four years, with these proceeds enabling Gerdau to focus on

its most profitable assets in the steel industry, while moving forward in its transformation.

As I end my executive career at the company and continue my activities on the Board of Directors, I want to take this opportunity to highlight the legacy of the Gerdau Johannpeter family on its direct management, which have consolidated its position as the leading producer of long and special steels in the Americas and launched its entry into the flat steel segment. Over the past few years, as we faced the industry's global challenges, we have turned around Gerdau's results, optimized its assets, implemented a pioneering digital innovation in the steel industry and modernized our corporate culture.

In this context, I want to thank our employees, clients, communities, the media, financial market analysts and shareholders, as well as the Executive Committee and Board of Directors of Gerdau S.A. and Metalúrgica Gerdau S.A., for their support and confidence over these years.



“ OVER THE PAST FEW YEARS, AS WE FACED THE INDUSTRY'S GLOBAL CHALLENGES, WE HAVE TURNED AROUND GERDAU'S RESULTS, OPTIMIZED ITS ASSETS, IMPLEMENTED A PIONEERING DIGITAL INNOVATION IN THE STEEL INDUSTRY AND MODERNIZED OUR CORPORATE CULTURE. EFFORTS THROUGH WHICH THE GERDAU JOHANNPETER FAMILY LEAVES AN IMPORTANT LEGACY OF ITS DIRECT MANAGEMENT OF THE BUSINESS. ”



MESSAGE FROM THE NEW CEO



GUSTAVO WERNECK

Gustavo Werneck, Gerdaу's Chief Executive Officer since January 2018

It is a great honor to accept the challenge of leading a company with Gerdaу's history, scale and high-quality teams. Given my firm belief in our capacity to innovate, we will continue to work expeditiously on our digital transformation and cultural modernization to position Gerdaу as one of the world's most innovative steel producers.

Regarding of our financial performance, we will work intently to leverage the profitability of our operations, to maximize free cash generation and to continue deleveraging. I am certain that, regardless of external factors, we have the capacity to do even better, especially because we have in Gerdaу a team capable of overcoming any

challenge.

Our next step in Gerdaу's transformation journey is to accelerate the digital innovation to better serve our clients and support their growth, building on the major innovations implemented at our plants in recent years. Another fundamental work front is to ensure the safety of our people in all our business divisions, aspiring to exemplary levels of safety performance.

Finally, I want to thank our employees for their enthusiasm, dedication and the drive to build a new Gerdaу that is more profitable and better prepared to generate returns for our shareholders.

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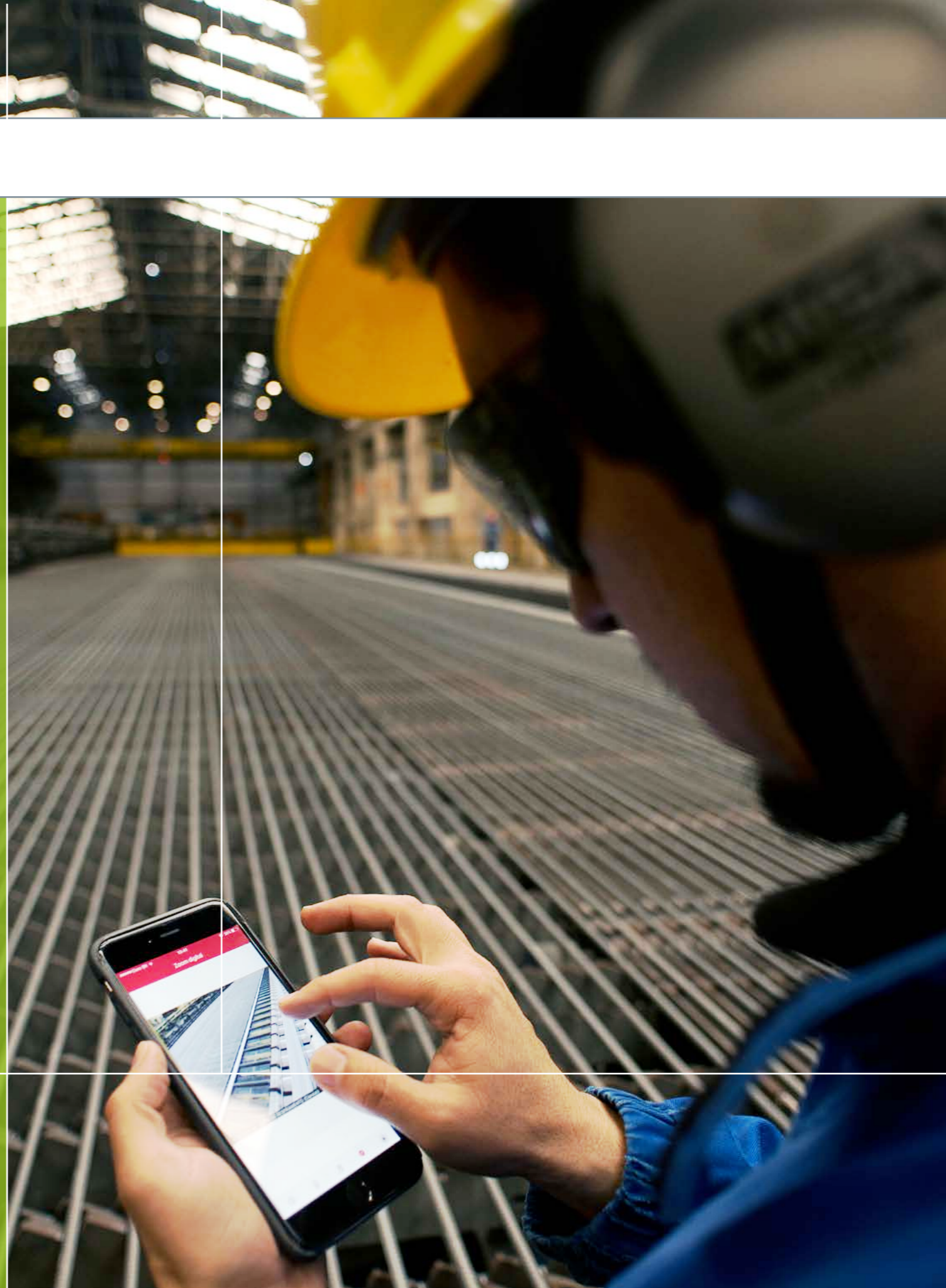
Financial Capital

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CORPORATE INFORMATION

Accelerated transformation, innovation and a digital mindset to capture operating efficiency gains and grow our clients' businesses, fostering intrapreneurship, optimizing assets, deleveraging and a strong focus on profitability define this new moment at Gerdau.

Constantly reinventing itself and rapidly adjusting to market changes are strengths that have accompanied the company over the last 117 years.





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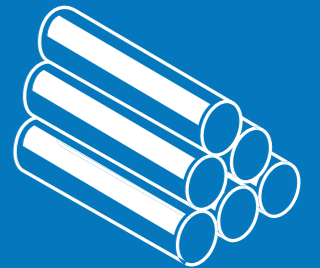
OPERATING & FINANCIAL PERFORMANCE

CORPORATE INFORMATION

12 Industrial operations in **countries**

Leading producer of **long steel** in the Americas

One of the world's largest **special steel** suppliers



40 steel mills as well as commercial offices, transformation units and scrap collection centers



Produces **flat steel** and iron ore in Brazil

30,000 employees worldwide

ENVIRONMENT

- Latin America's larger recycler, with 12 million tonnes of scrap recycled annually
- R\$ 264 million invested in protecting the environment

SOCIAL RESPONSIBILITY

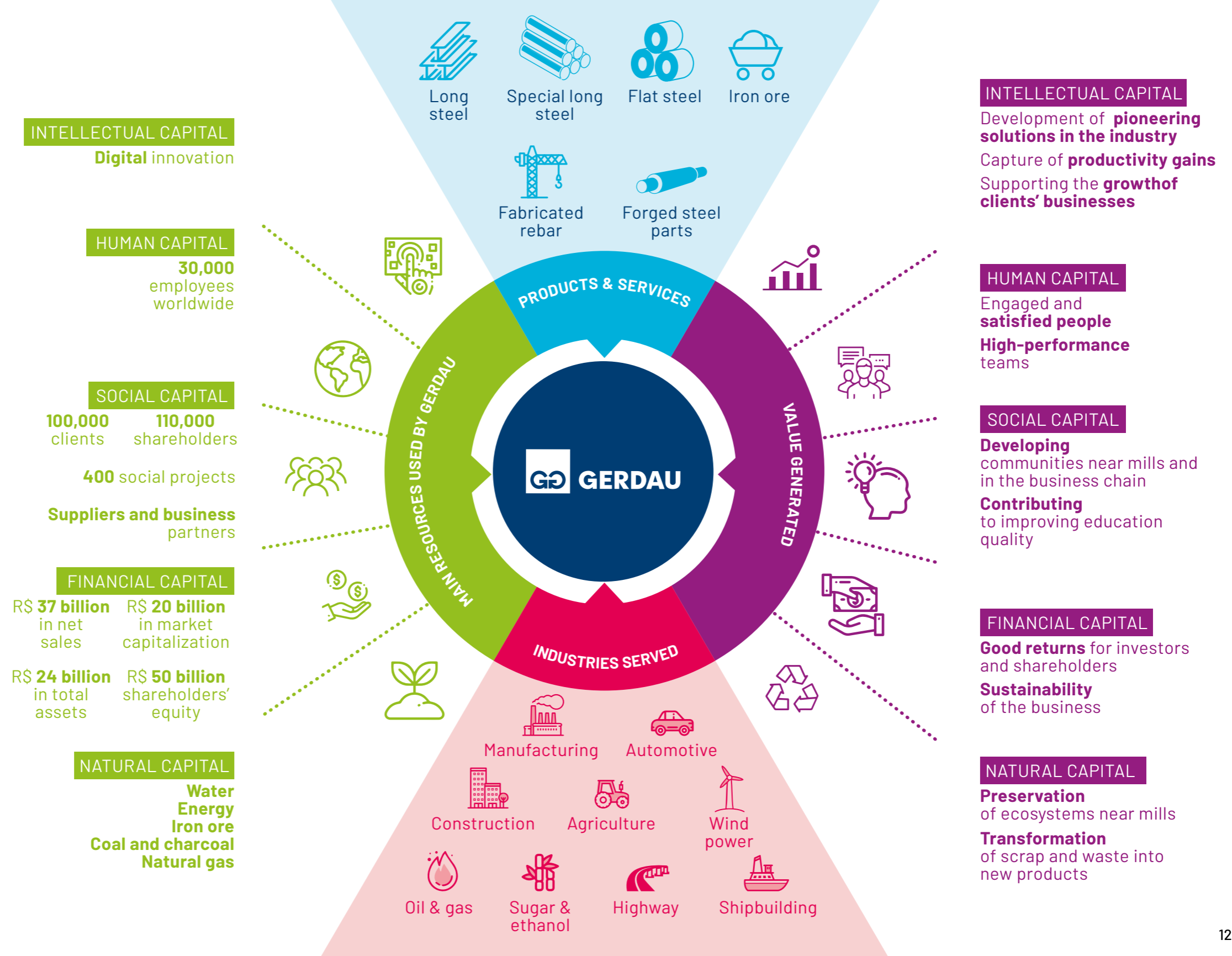
- R\$ 19 million in social investments
- 400 projects worldwide

Listed on the **São Paulo, New York and Madrid** stock exchanges

R\$ 37 billion in net sales in 2017

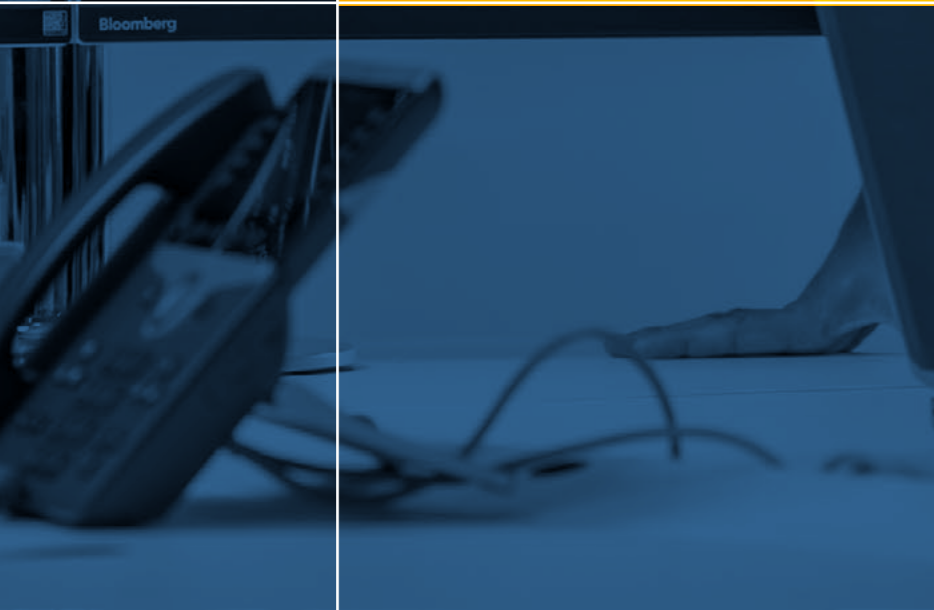


BUSINESS MODEL



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CORPORATE GOVERNANCE





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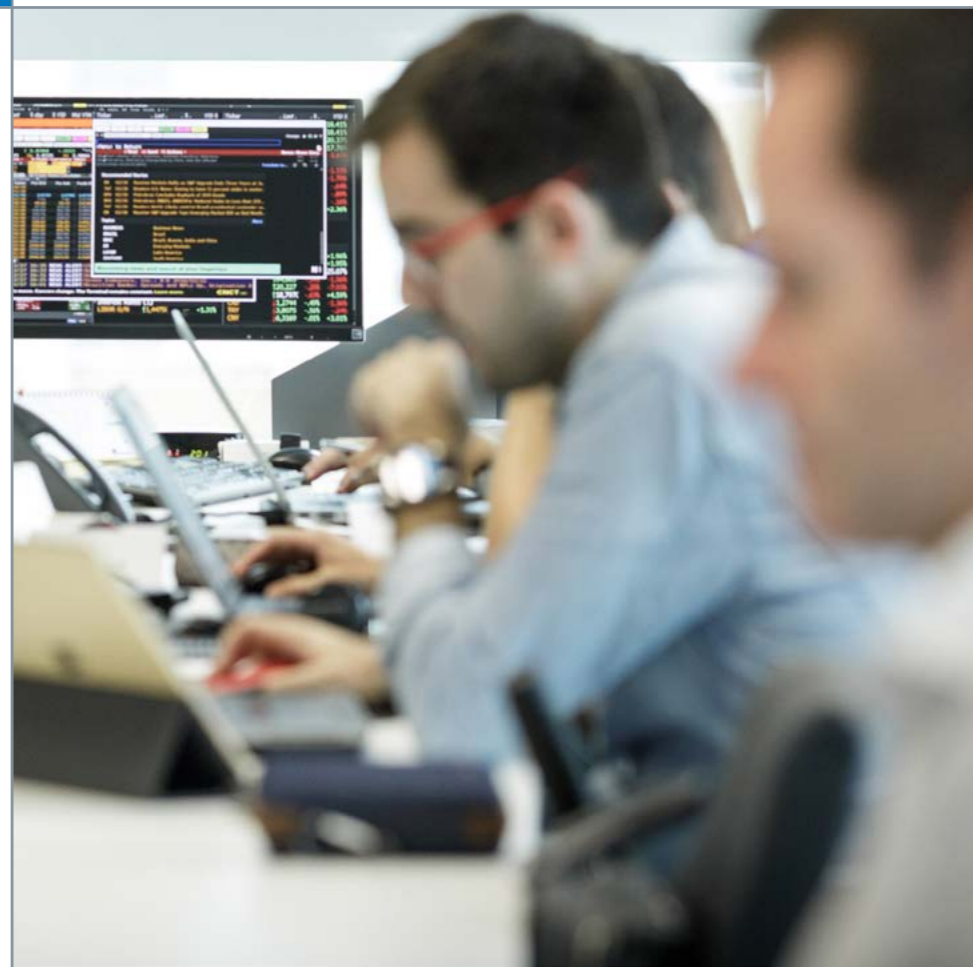
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CORPORATE GOVERNANCE

Gerdau's transformation also has involved enhancing its corporate governance.

In 2017, Gerdau announced its new CEO, Gustavo Werneck, previously Executive Officer of the Brazil Business Division. Werneck took office in January 2018. The members of the fifth generation of the Gerdau Johannpeter family who were serving in the company's executive leadership – André Gerdau Johannpeter, Chief Executive Officer (CEO), and the Executive Vice-Presidents Claudio Johannpeter and Guilherme Gerdau Johannpeter – now serve exclusively on the Boards of Directors of the companies Gerdau S.A. and Metalúrgica Gerdau S.A., of which they already were members.





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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE

The **Board of Directors** is responsible for formulating the Company's long-term strategies and for supervising the guidelines established. Meanwhile, the **Gerdau Executive Committee (GEC)** is responsible for working in accordance with the policies established and for managing the business divisions and corporate departments.

The **Board of Auditors** is responsible for supervising and monitoring the activities of the officers and directors and the financial statements. The **Advisory Board**, which is formed by members of the fourth generation of the Gerdau Johannpeter family, is responsible for sharing their experience amassed over GerdaU's history and continuous evolution.



BOARD OF DIRECTORS OF GERDAU S.A. AND OF METALÚRGICA GERDAU S.A.

- 1 Claudio Johannpeter**
Chairman of the Board, GerdaU S.A. and Metalúrgica GerdaU S.A.
- 2 Guilherme GerdaU Johannpeter**
Director, Metalúrgica GerdaU S.A.
- 3 André GerdaU Johannpeter**
Director, GerdaU S.A. and Metalúrgica GerdaU S.A.
- 4 Fernando Fontes lunes**
Director, GerdaU S.A. and Metalúrgica GerdaU S.A.
- 5 Richard GerdaU Johannpeter**
Director, GerdaU S.A.
- 6 Affonso Celso Pastore**
Director, GerdaU S.A. and Metalúrgica GerdaU S.A.
- 7 Aod Cunha de Moraes Júnior**
Director, GerdaU S.A. and Metalúrgica GerdaU S.A.



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CORPORATE GOVERNANCE



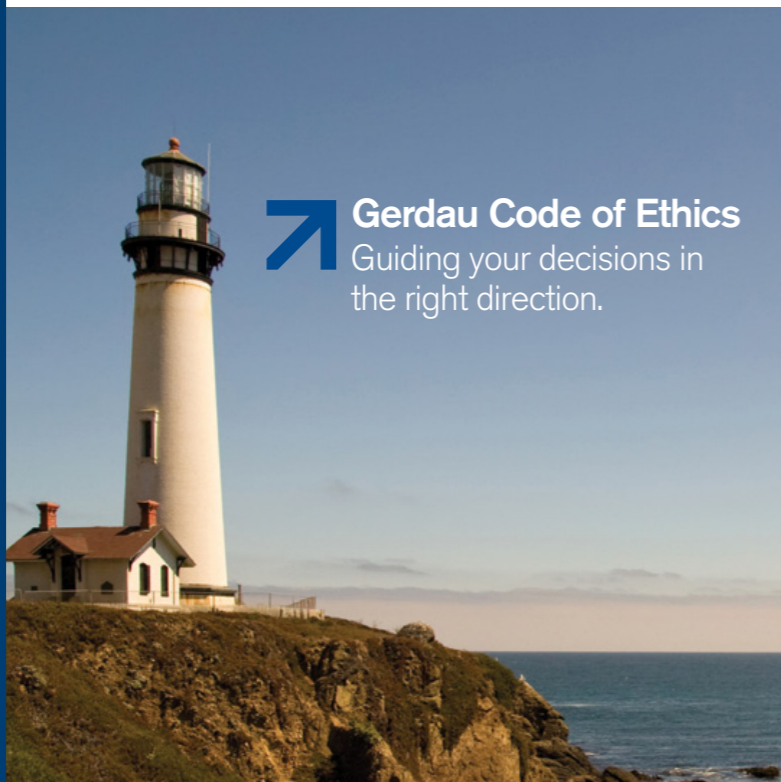
ETHICS AND CLOSE STAKEHOLDERS RELATIONS

Gerdau's relationships are guided by rigorous standards of ethics and follow international parameters of corporate governance. Gerdau is listed on the São Paulo, New York and Madrid stock exchanges.



CORPORATE GOVERNANCE

Because its securities are traded in the U.S. stock market, Gerdau complies with the Sarbanes-Oxley Act, which establishes good practices of corporate governance and rigorous controls of internal processes. In the Brazilian market, Gerdau stock is traded on the Level 1 Corporate Governance segment of the BM&FBovespa, which establishes differentiated practices for transparency in information disclosures to the market and minimum levels of shareholder dispersion. Gerdau also adopt standards beyond those required by Brazilian law, such as 100% tag-along rights for all shareholders and the payment of a minimum dividend of 30% of adjusted net income.



Gerda Code of Ethics
Guiding your decisions in the right direction.

Together with its stakeholders (employees, clients, suppliers and local communities), Gerdau strives to maintain transparent and close relations based on mutual gains. The principles that guide the Company's relations with each of these stakeholders are based on its values and are described in the Code of Ethics, which can be found on the Gerdau website.

To reinforce the importance of acting ethically, in 2017, the Company administered training programs on combatting corruption to employees at all business divisions and conducted campaigns on ethics and compliance.

Other advances in the year included disseminating the policy on relations with government officials, which establishes clear rules for contact between Gerdau employees and any government agent. Gerdau also has an anonymous and confidential communication channel for receiving questions and reporting suspected violations of its Code of Ethics or the law. In 2017, the channel investigated 361 reports, 175 of which were considered valid and led to the application of the consequences policy.



Click here to read the Code of Ethics





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CAPITAL

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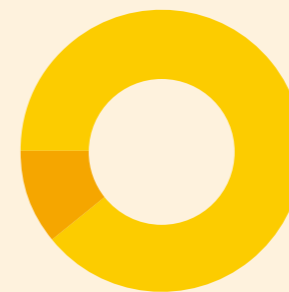
HUMAN CAPITAL

Gerdaу’s entire transformation has been driven by the thousands of employees who every day put the new corporate culture into practice. This means **more simplicity for executing projects, more autonomy for proposing innovative solutions, more entrepreneurship for identifying new business opportunities**, just to mention some of the advances. The new culture also has enabled employees to align their challenges with the group’s goals, generating greater engagement and mutual gains.

30,000 Employees worldwide



11%
WOMEN



89%
MEN





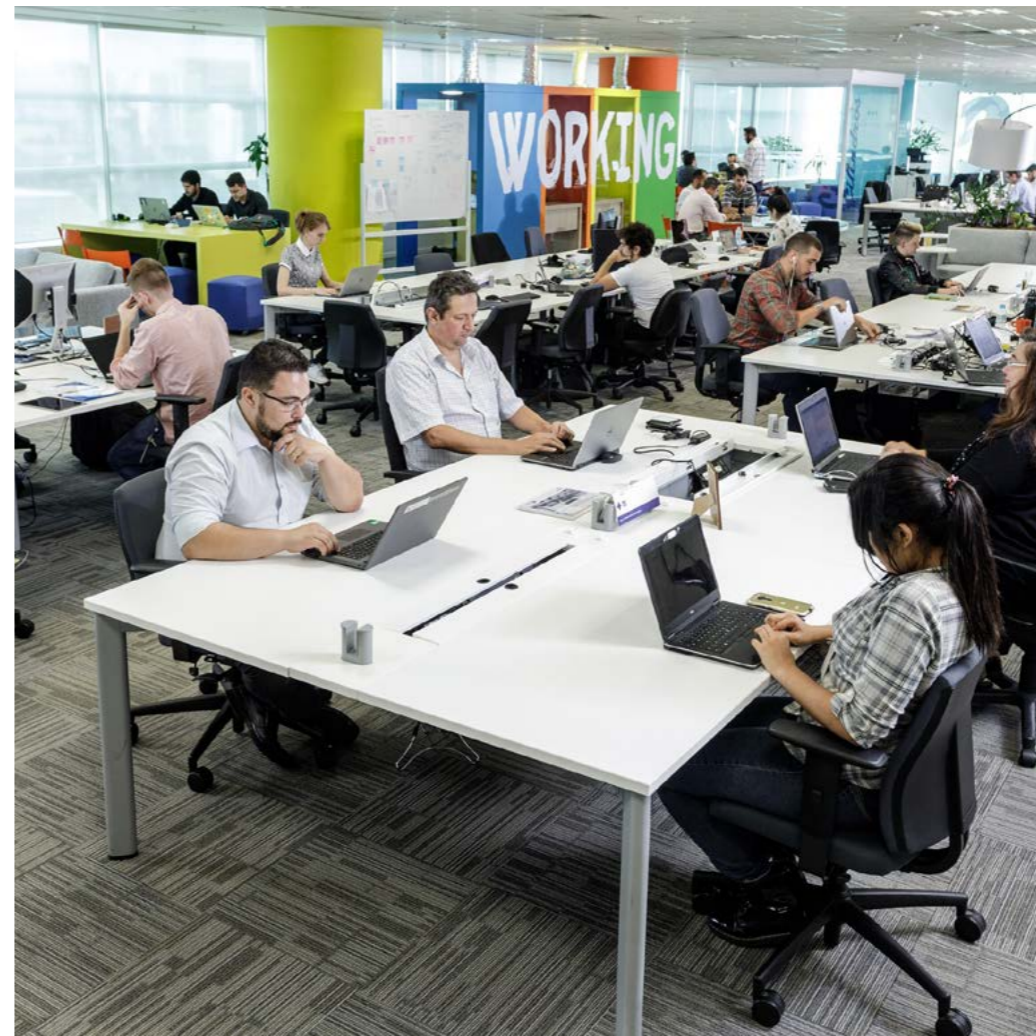
HUMAN CAPITAL

CULTURAL TRANSFORMATION

Anticipating transformations in the industry has been a constant feature of GerdaU's management over its long history. The cultural transformation journey began in 2014, sparked by the perception that the company had to change the way it operated in order to set itself apart in the steel industry and consequently boost the profitability of its operations, despite the industry's challenging scenario. To support this change, the company defined **four cultural attributes** to be implemented over the coming years: **Openness, Simplicity, Autonomy with Responsibility and Leaders Developing Leaders.**

This cultural modernization reduced hierarchies, decentralized the decision-making process and empowered operations and teams. The new dynamics incorporated greater agility and simplicity into the company's day-to-day routines and encouraged employees to propose innovations in all fields and areas of the company, many of which are unprecedented in the steel industry.

With regard to leadership development, all GerdaU leaders have a target of dedicating at least 30% of their time to developing new leaders. In 2017, more than **1,500 leaders were trained** by other leaders **on the new culture's attributes** and, in 2018, the program will continue until reaching all leadership levels of the organization.

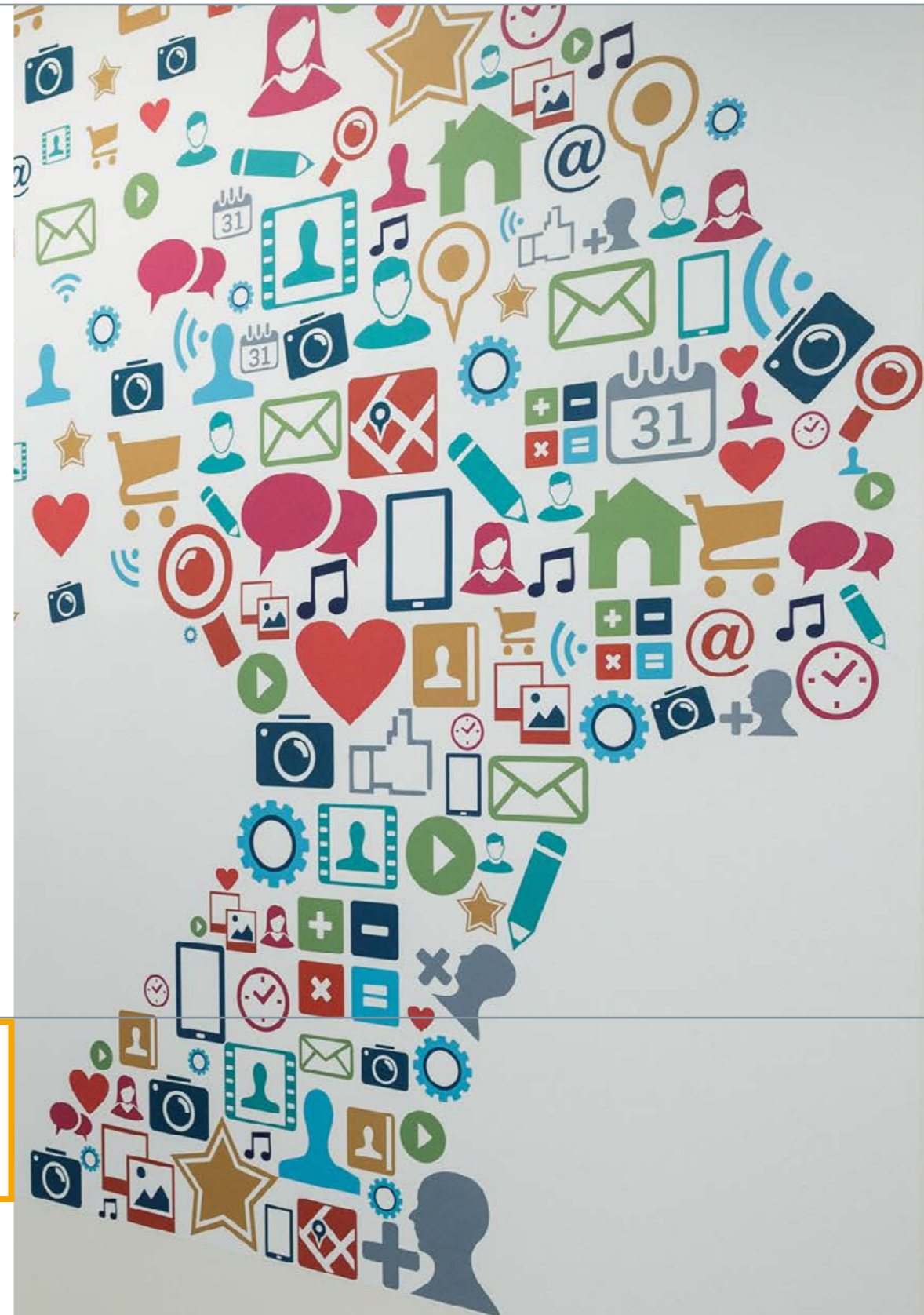


HUMAN CAPITAL

CULTURAL TRANSFORMATION

In addition, **countless actions symbolizing** this new culture were implemented, such as streamlining structures and processes, modernizing the layouts of offices and industrial plants and **making workplaces lighter, friendlier and better suited for collaboration between professionals and teams.**

To stimulate the development of its employees, the company has been increasingly **recruiting internally** and, over the past four years, hundreds of positions were filled in this way. This helps to promote employee mobility within the company and gives them an opportunity to gain new professional experiences.





HUMAN CAPITAL

SPACES FOR SHARING EXPERIENCES

Innovation rooms

Innovation rooms designed to stimulate integration among employees were built at several industrial and administrative units. The rooms also are used to conduct training sessions and workshops.

Yammer

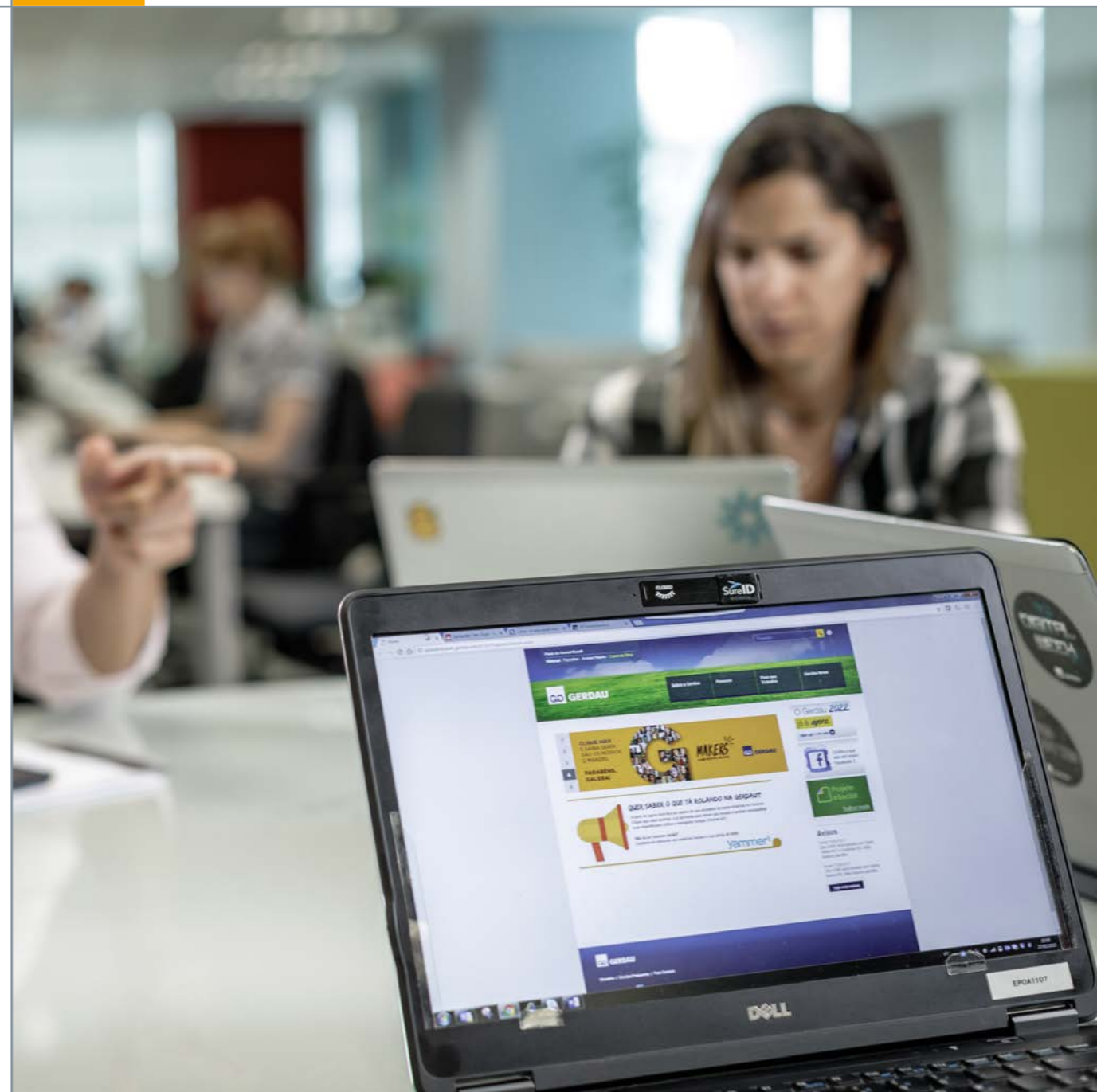
Internal social network that promotes the exchange of ideas, greater integration among employees, innovation and the replication of good practices in various areas.

 **12,000** employees connected in Brazil

 **80%** of the workforce

Workshops and learning sessions

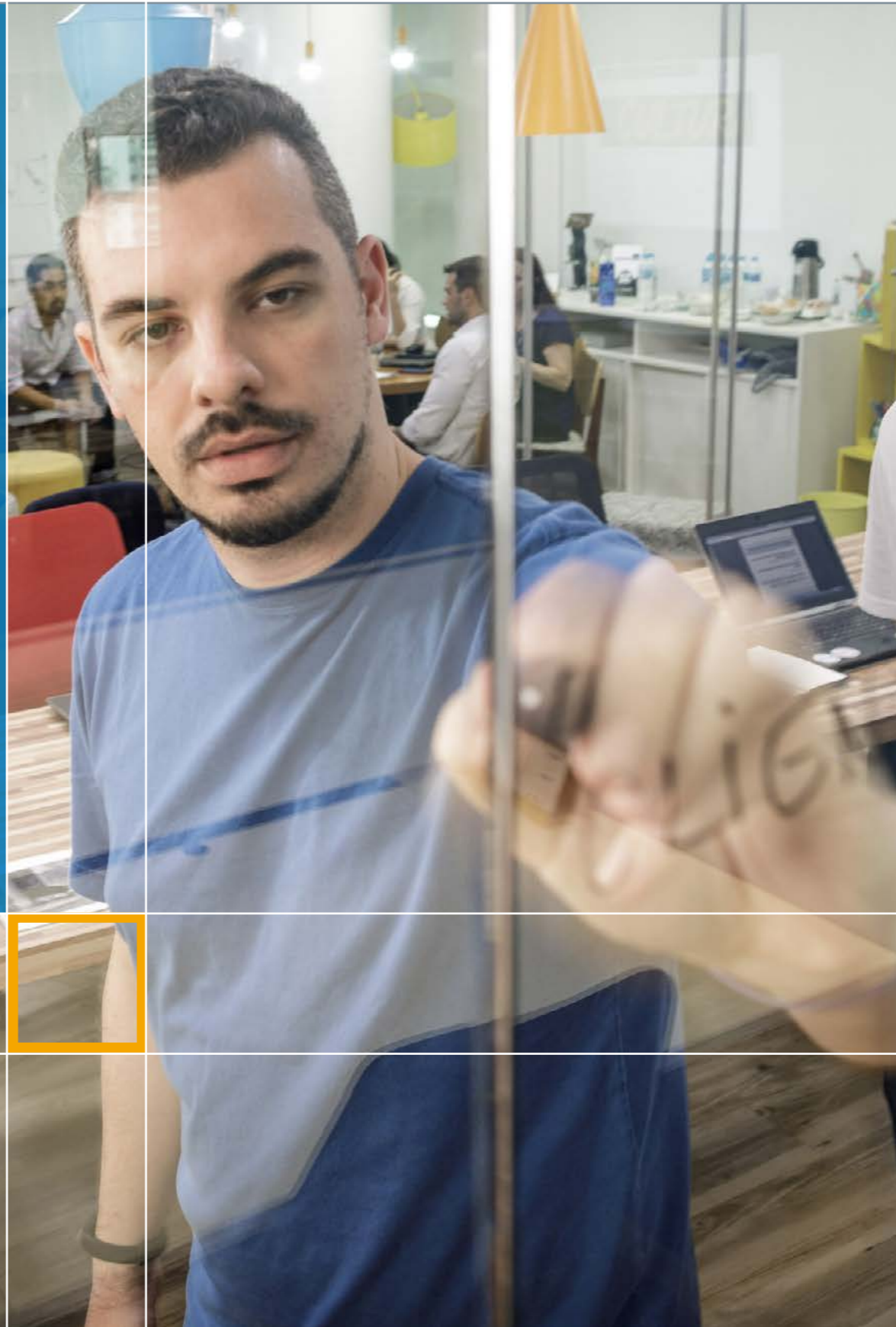
Encounters for exchanging knowledge on a variety of topics in which employees and external professionals, such as clients, suppliers and partners, participate.



HUMAN CAPITAL

INNOVATION & INTRAPRENEURSHIP

Digital innovation in a wide array of areas at Gerdau, combined with agile methodology for accelerating projects and results for the business, gained a strong ally: incentives for intrapreneurship. Gerdau believes that employees playing lead roles in their own careers increase satisfaction and engagement, which in turn supports the development of new technologies, products and services.





HUMAN CAPITAL

Learn about some initiatives:

Gmakers

In 2017, Gerdau launched the Gmakers program, which trains and develops professionals with a digital vision to create disruptive solutions for the company. The selection process was open to employees and market professionals. From among the 12,000 applications submitted, 42 professionals were selected. This created a diverse group formed by professionals from different backgrounds, but with a shared passion for challenges.

G.Rocket

Launched in early 2018, G.Rocket is a program to further stimulate intrapreneurship. Open to all employees, the initiative invites them to transform their ideas into new businesses. Program participants receive technical training in developing projects in a startup format and the best initiatives receive Gerdau's support and investment for their testing.

Silicon Valley

In 2018, Gerdau will forge even closer ties with California's Silicon Valley, which is home to the world's leading technology and innovation companies and is considered the cradle of innovation. Gerdau will select professionals to accompany permanently the latest trends and the ecosystem of Silicon Valley. The goal of these employees is to identify disruptive solutions for accelerating the Company's digital innovation.



To learn more about the entire Gmakers process, [click here](#) to watch the video.



HUMAN CAPITAL

PURPOSE

One of Gerdaу’s targets for 2018 is to launch its new purpose, which it understands as **the connection between its talent and the needs of today’s world**. Through this connection, Gerdaу strives to generate results with economic, social and environmental value for

its stakeholders, to adopt a vision of the future capable of impacting its medium- and long-term results and to identify new business routes. The effort has been the focus of multidisciplinary teams and represents an important step for defining Gerdaу’s future.



HUMAN CAPITAL

DIVERSITY

In 2017, Gerdau launched a structured project to foster diversity throughout the company. Given the breadth of the topic, Gerdau opted to start by analyzing gender equality, which led it to conduct a survey with its employees in Brazil and Latin America. In total, 6,500 people responded to the survey. Gerdau also became a signatory to the

UN Women's Empowerment Principles,

reinforcing its commitment to promote gender equality. Afterwards, more than 100 professionals who have a close affinity with the topic volunteered to participate in these work fronts in 2018.





INTELLECTUAL CAPITAL

#digitalsteel

DIGITAL INNOVATION TO SUPPORT ADVANCES IN CLIENTS' BUSINESSES

Gerdau launched its digital innovation journey by transforming its mills in a **pioneering move in the global steel industry.**

The company incorporated into its industrial operations a series of new technologies to increase efficiency and reduce costs, effectively boosting its profitability.

And the results of this effort already have begun to be perceived in Gerdau's results. Innovations, for example, have played a key role in cutting selling, general and administrative expenses by nearly R\$ 600 million in 2017.

During the year, Gerdau took yet another step in its digital innovation process, with innovations now focused on its clients in order to effectively contribute to the growth of their businesses. The Company is currently working on, for instance, artificial intelligence initiatives to improve customer service and anticipate market trends.

Gerdau also is developing work fronts in the internet of things, which, in the future, will connect its entire value chain, from the sourcing of raw materials for making steel to end customers. Special customer relations policies also are being developed, which include, for example, more user-friendly platforms for clients that make doing business with Gerdau even easier.

□ To learn more about Gerdau's digital innovation initiatives, watch the **video.**



INTELLECTUAL CAPITAL

#digitalsteel

DIGITAL CUSTOMER SERVICE PLATFORMS

eGerda Portal

The portal allows customers to place orders, manage their portfolio and obtain financial information. Today, half of Gerda's direct sales customers in Brazil use the platform.

Cut and Bend Portal

This portal serves clients in the construction industry, which is one of Gerda's key markets. Around 70% of orders for fabricated rebar placed in Brazil are made through the portal.

Chatbot João

Baptized with the name of Gerda's founder from over one hundred years ago, Chatbot João uses deep-learning tools to provide information on the corporation and its products and enables clients to receive quotes and carry out other tasks.



JOÃO





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INTELLECTUAL CAPITAL

#digitalsteel



ONLINE MONITORING AND DIAGNOSTIC SYSTEM

Gerdau launched a pioneering initiative in the global steel industry: real-time control of the performance of **one thousand pieces of equipment** at **eleven mills in Brazil** through more than **40,000 sensors** installed on the machines.

Using algorithms and artificial intelligence, the technology is helping the company to anticipate potential equipment failures, which reduces maintenance costs and increases gains. Estimates indicate that the new technology could increase by **up to 20%** the useful life of equipment.



INTELLECTUAL CAPITAL

#digitalsteel

LOGISTICS SOLUTIONS

SmartLog

To optimize its network and reduce logistics costs, Gerdau is investing in a platform that connects various management systems and standardizes processes involving the contracting, negotiation and management of freight services. SmartLog allows users to monitor costs, loading productivity and customer service quality. This is achieved by using market projections and trends combined with technologies such as machine learning, internet of things and big data.

Management of truck lines

Another initiative that generated significant gains for Gerdau's logistics management was the management of its truck lines. Using a dedicated app, drivers can schedule loading and unloading operations at mills and manage the various vehicles stages inside the mill, which expedites the process and ensures productivity gains.

Infographic

Before

1 trip per day



After

3 trips per day



In 2017, the system already was operational at 11 units in Brazil

68,000
operations
scheduled

14,000
Vehicles
registered

4,67 out of 5
Driver
satisfaction




INTELLECTUAL CAPITAL

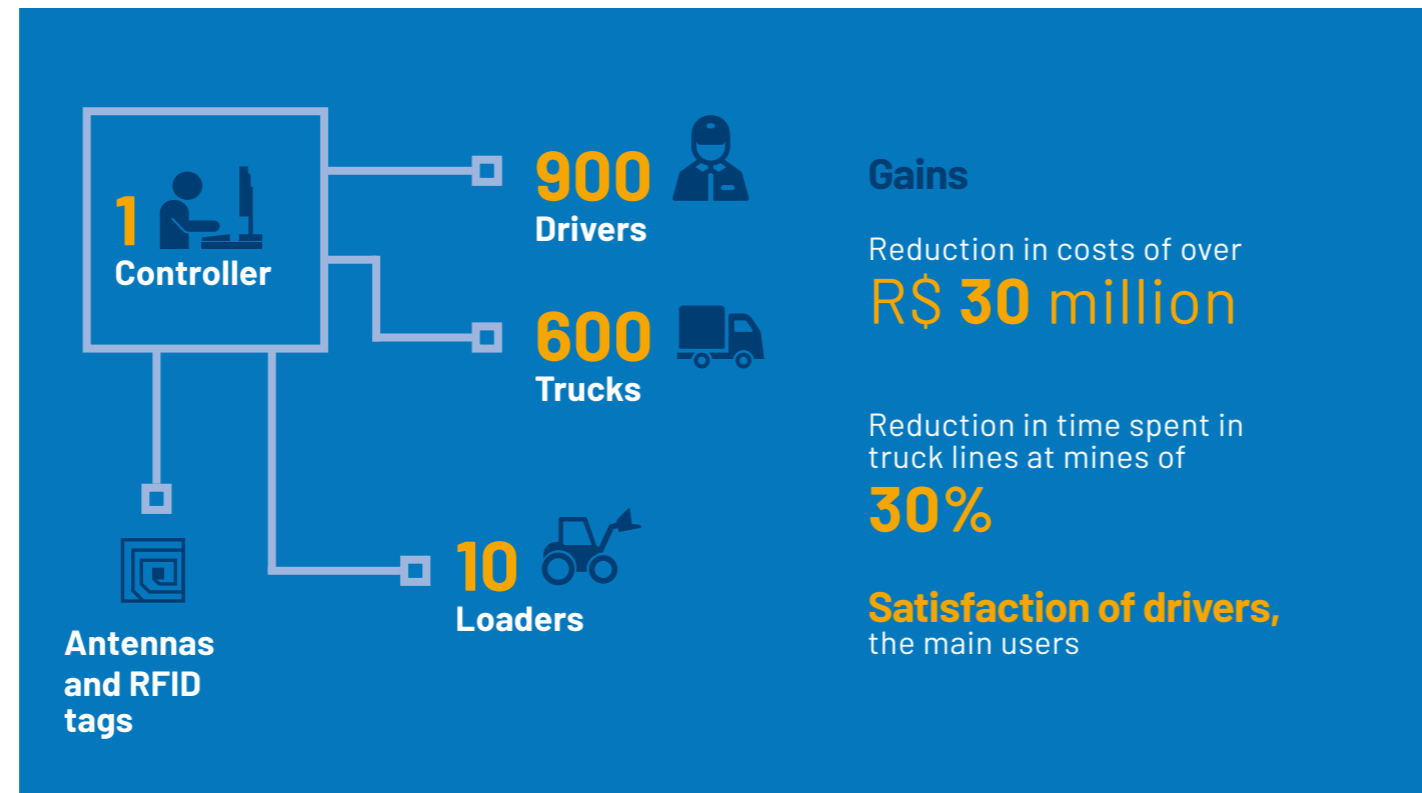
#digitalsteel

Mining logistics control center

The use of the internet of things has revolutionized the management of logistics for iron ore production. A digital system connects an operator in the control room with 900 drivers, 600 trucks and ten loaders that, supported by antennas and RFID tags, effectively automate the ore transportation

process. Route management also is automated with RFID technology making it possible to monitor truck routes and know precise delivery times.

 Watch the **video** to see how the system works.



Robotics center

In 2017, Gerdau inaugurated its first robotics center in São José dos Campos, São Paulo. The new center will help to automate industrial processes at the Company, helping to capture productivity gains and improve worker safety in routine operations. Furthermore, the space is designed for training employees and local residents (college students and others interested in the topic), with capacity to reunite up to 600 students per week.



INTELLECTUAL CAPITAL



#digitalsteel

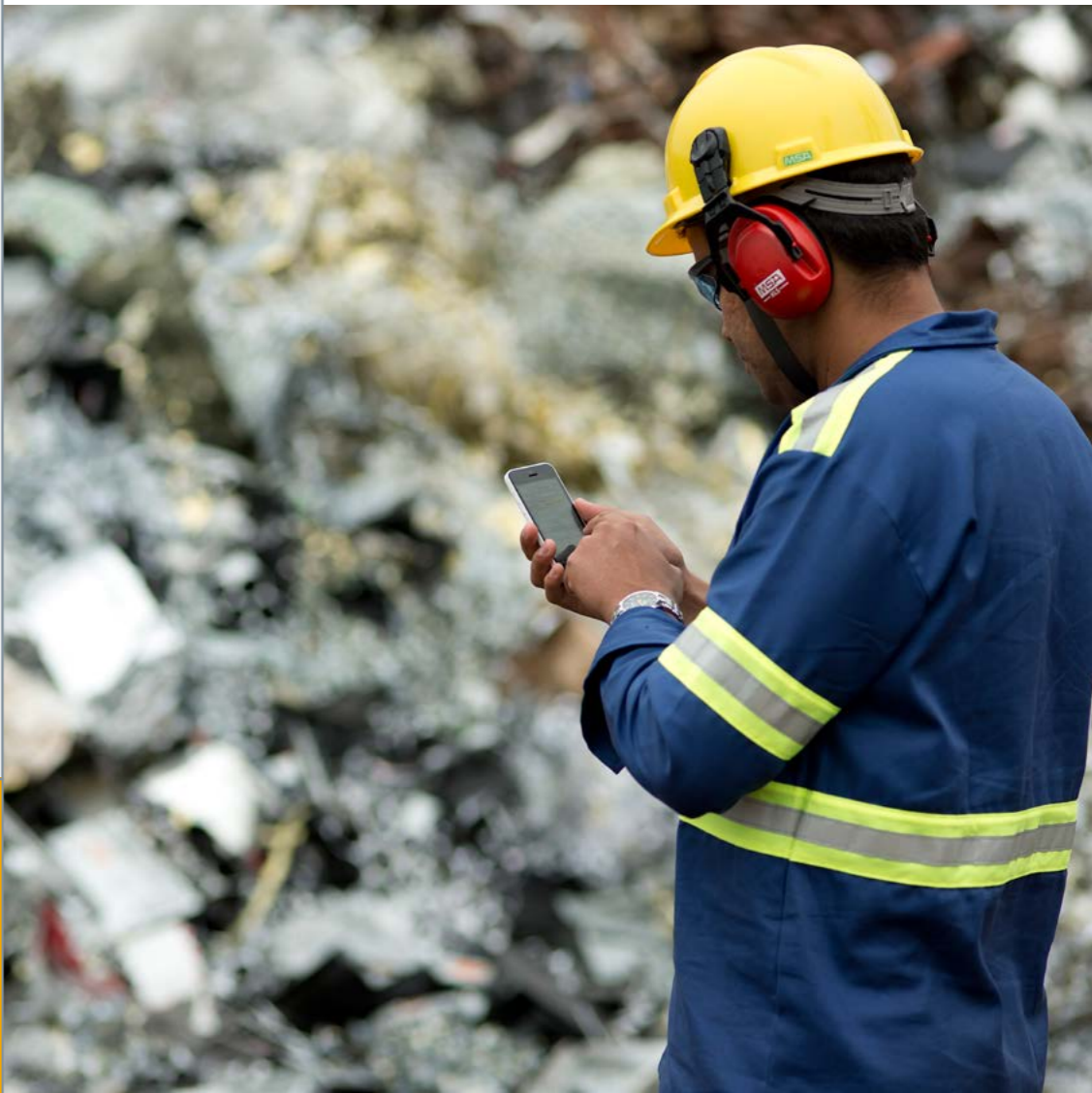
Scrap

More agile classification

Using smartphones to classify scrap has reduced the time spent on the process by **93 hours per month** and enabled operators to classify the scrap directly in the yard instead of going to a control room. This saves **four hours** of work per day, which generates important productivity gains in the operation.

Automated inventory

Conducting scrap inventories using drones has shortened the classification process from **3 days to 7 minutes while cutting costs by 80%.**



SOCIAL & RELATIONAL CAPITAL

R\$ 19 million
in social investments in 2017

Around **400** projects worldwide





INNOVATION FOR SOCIAL IMPACT

In 2017, Gerdau launched a **transformation in its social action**. It reviewed the projects it supports focusing on three major fronts: business chain, local communities (where its mills are located) and higher-quality education and management.

To enhance its social impact, it sought to forge partnerships with accelerators and startups with a view to developing innovative initiatives. One example is the new project by **Junior Achievement** in Brazil, the **JA Startup**. Junior Achievement, which partners with Gerdau on initiatives around the world, has fostered education and entrepreneurship in Brazil for over 20 years. In 2017, the organization gained a new ally for improving young professional's readiness for the job market: **StartSe**, Brazil's largest startup ecosystem.

The partnership of Gerdau, Junior Achievement and StartSe resulted in a pilot project to transform classrooms into a startup incubator for developing an entrepreneurial mindset of the new economy. The project engaged 31 students from a school in the state of Rio Grande do Sul for eight weeks. After completing the project, the young students developed their projects and presented them to a panel formed by the local agents of the startup ecosystem. Due to its success, the program will be replicated in São Paulo, Rio de Janeiro, Minas Gerais and Pernambuco in 2018.

 Want to read more about the entire process? [Click here](#) to watch the video.





SOCIAL & RELATIONAL CAPITAL

In the area of management, Gerdau forged a partnership with the **Public Leadership Center**, which develops public leaders driven to foster transformational changes through management efficiency and higher-quality public policy. In the class of the 2017-18 cycle, 33 leaders will graduate from the master's program in Public Leadership & Management.

BUSINESS CHAIN

Gerdau has vast experience in serving the construction industry, one of its key clients. To draw on its knowledge amassed in the industry and generate social impact, Gerdau joined forces with **TETO**, an international organization that works to protect people in situations of social vulnerability by supporting the construction of emergency housing in impoverished communities.

Over the five years of this partnership, Gerdau already has donated more than 15 tons of nails to build 2,000 houses, which benefitted families in 87 communities nationwide. In addition to donating materials, Gerdau employees volunteer on certain projects to help build the homes. In 2018, Gerdau plans to expand its partnership with TETO and currently is studying new forms of alliances.



To read stories about the communities and the volunteers involved, watch the **video**.



SOCIAL & RELATIONAL CAPITAL

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TEN YEARS COMBATTING THE SEXUAL EXPLOITATION OF MINORS ON BRAZILIAN HIGHWAYS

Since 2007, Gerdau has been a signatory to the Corporate Pact against Sexual Exploitation of Minors on Brazilian Highways, which was proposed by **Childhood Brasil** and by **Instituto Ethos**. Gerdau supports the **Mão Certa Program**, which works to combat the sexual exploitation of children and teens on the country's highways.

Given Gerdau's broad geographic diversification nationwide and extensive network of truck drivers who render

services to the Company, it regularly organizes actions to train drivers on how to act as agents protecting the rights of children and teens. The drivers have, for example, reported suspicious or confirmed events of sexual exploitation, which helps to eradicate the problem.

□ To learn more about the activities of the Mão Certa Program over its ten years, [click here](#)



SOCIAL & RELATIONAL CAPITAL

COMMUNITY DEVELOPMENT

In the communities where it operates, Gerdau works with charitable organizations, local organizations and local governments to promote the region's development by supporting initiatives related to education. In 2017, when the new melt shop was inaugurated in the province of Santa Fé, Argentina, Gerdau also contributed to the local community by

supporting construction of the **expansion of the Modesto J. Cerrato Technical School**. The new facilities will make it possible to train more students in automation and electromechanics to fill jobs in the region. Some of the technical program's practical modules were developed over ten years at Gerdau's rolling mill in

Santa Fé, with the support of employees volunteer.

In Peru, Gerdau also helps to prepare young professionals for the job market by managing a technical school at its Chimbote unit. Over 1,000 students have already graduated since its creation in 1988.

EDUCATION IN ENVIRONMENTAL PRESERVATION

In the Brazilian state of Minas Gerais, Gerdau has several industrial units, which include the Ouro Branco Mill, its largest unit worldwide, and the iron ore mining operation. Given the state's historical vocation in mining and metallurgy, the company has helped to preserve the local history and culture as the operator of **MMGerdau, Mines and Metal Museum**, since 2013. In addition to an

extensive collection and cultural activities, the museum offers an educational calendar designed especially for children.

In Minas Gerais, Gerdau also maintains, since 1990, the **Gerdau Germinar Program**, which focuses on environmental education for students and teachers at public schools in the cities of Ouro Branco, Congonhas, Conselheiro Lafaiete, Moeda, Itabirito and

in the district of Ouro Preto. The biocenter created by Gerdau has 48 hectares of preserved areas and sponsors educational programs and awards to encourage residents to act responsibly and to become actively engaged in the preservation of natural resources.



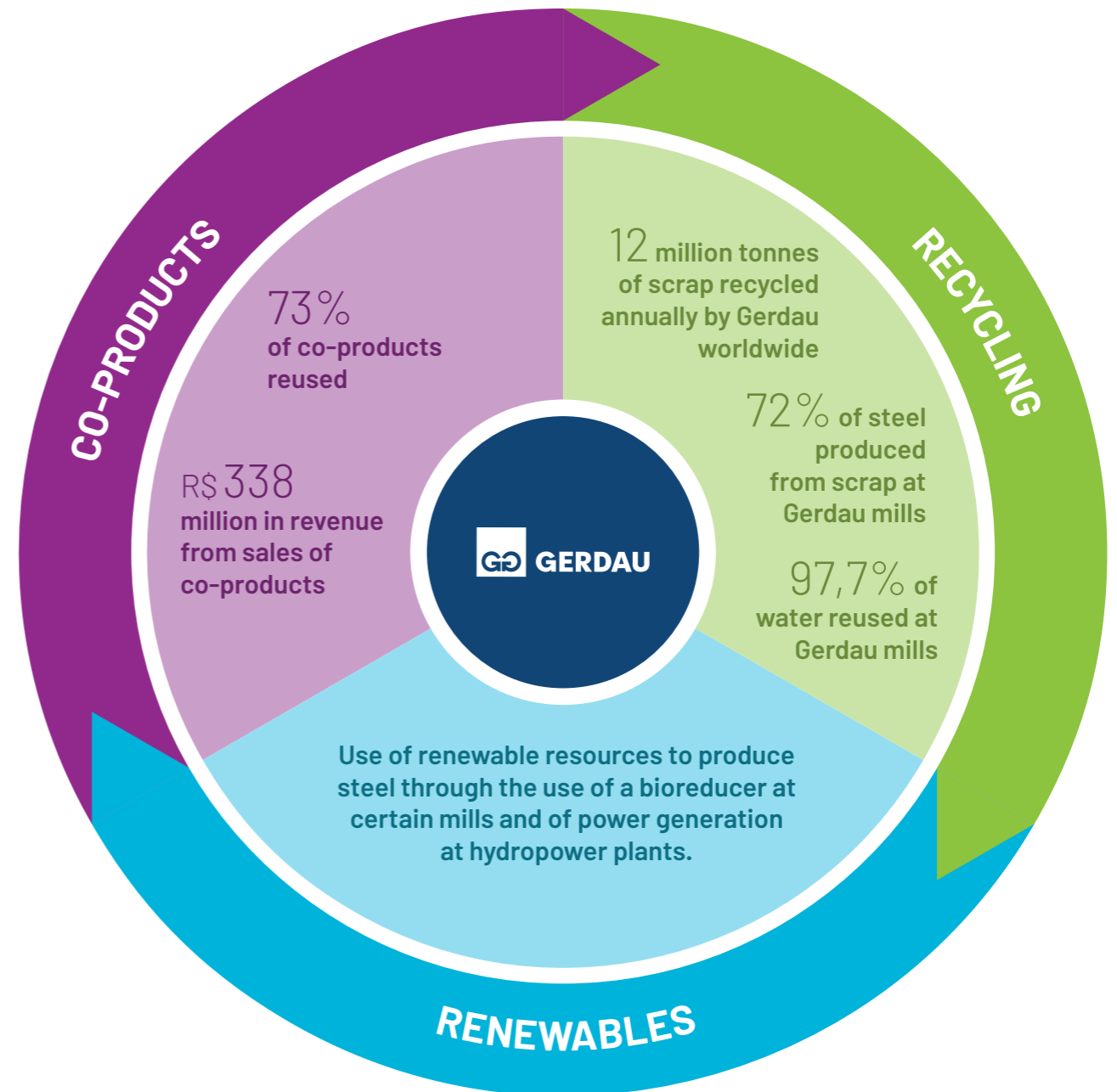
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NATURAL CAPITAL

PRINCIPLES OF THE CIRCULAR ECONOMY GUIDE GERDAU'S ENVIRONMENTAL MANAGEMENT PRACTICES

Gerdaу's management system balances the economic, social and environmental pillars and features practices aligned with the concept of a circular economy. This model replaces the linear economy, in which products are manufactured using raw materials and then discarded upon the end of their useful lives. In the circular economy model, products, or part of them, are reused, repaired and recycled. This type of economy aims to rebuild capital, whether financial, industrial, human, social or natural. As such, it **enables the most efficient management of natural resources and maximizes the well-being of society as a whole.**

Steel is one of the industries that contributes to the transition from a linear to a circular economy because of the material's infinite recyclability and durability, which enables it to be recycled, reused and remanufactured.





NATURAL CAPITAL

GERDAU INITIATIVES



Co-products

Co-products, which are materials generated as secondary products during the steel production process, have innumerable application and are used by various industries, including for road paving, railroad ballast, casting, cement and ceramics. In 2017, Gerdau reused 73% of its co-products, which generated revenue of R\$338 million in the year.



Recycling

Gerdau is the largest recycler of **ferrous scrap** in Latin America and transforms 12 million tonnes of scrap into new steel goods every year. In 2017, 72% of the steel produced by the Company was manufactured using scrap as the main raw material. Therefore, scrap recycling is one of Gerdau's main contributions to the environment, since it removes obsolete materials from cities while reducing energy consumption and CO2 emissions in steel production, creating new jobs and generating income for a broad network of suppliers.

Water recycling is also a top priority at Gerdau, with 97.7% of its water reused through internal treatment and recirculation systems. Protecting the air is another key element of the Company's environmental management. On this front, all Gerdau mills feature modern **dust removal systems** that capture the solid particles generated during the steel production process, as well as system for reusing blast furnace gases.



Renewables

A bioreducer (charcoal obtained from planted forests) is used to substitute carbon in some of the Company's units that use blast furnaces in their production process. Because it is a renewable biomass, charcoal helps to mitigate environmental impacts by reducing greenhouse gases. Gerdau also produces part of the energy it uses in Brazil at its hydropower plant located in the state of Rio Grande do Sul.

NATURAL CAPITAL

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Investments to protect the environment
R\$ 264 million

Environmental preservation



4,000 hectares of legal reserves or permanent preservation areas



5,000 hectares of conserved forests



10,000 trees planted in 2017



5,000 people trained in environmental education



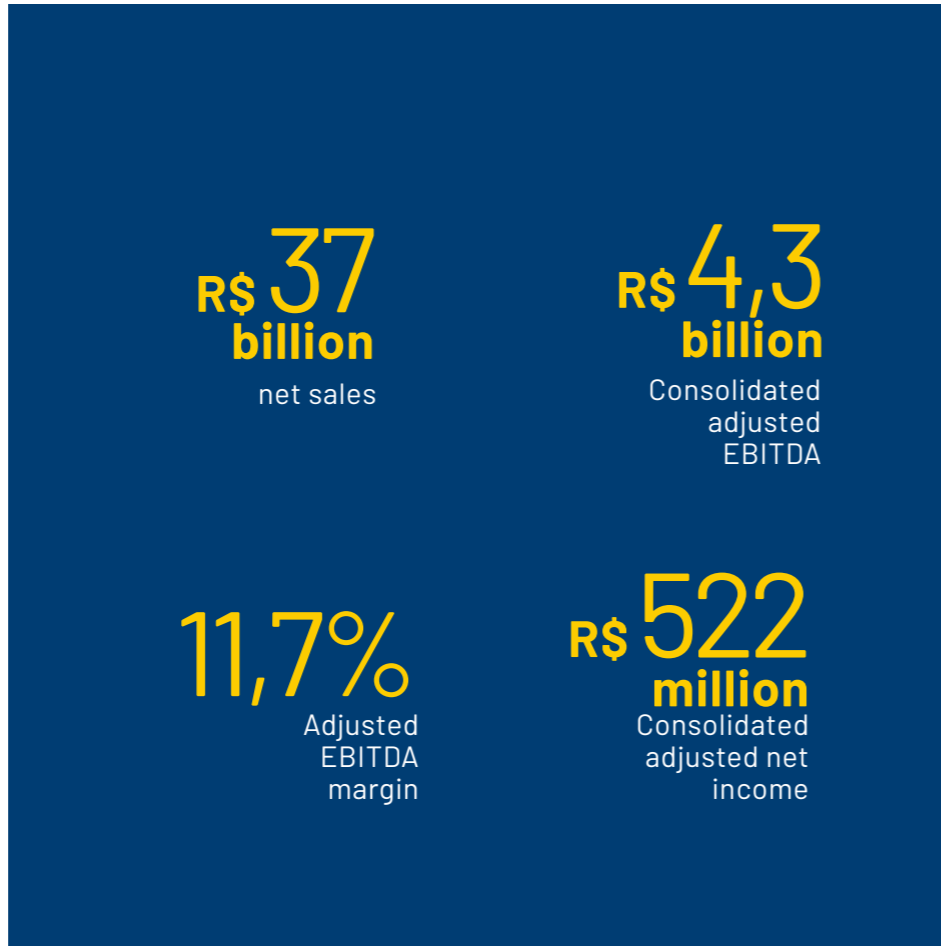
9,000 hours of training administered



FINANCIAL CAPITAL & OPERATING PERFORMANCE



FINANCIAL PERFORMANCE 2017:



RESULTS OF THE COMPANY'S MANAGEMENT EFFORTS:



FINANCIAL PRIORITIES FOR 2018:

Improving the profitability of the business divisions

Generating free cash flow

Deleveraging

FINANCIAL CAPITAL & OPERATING PERFORMANCE

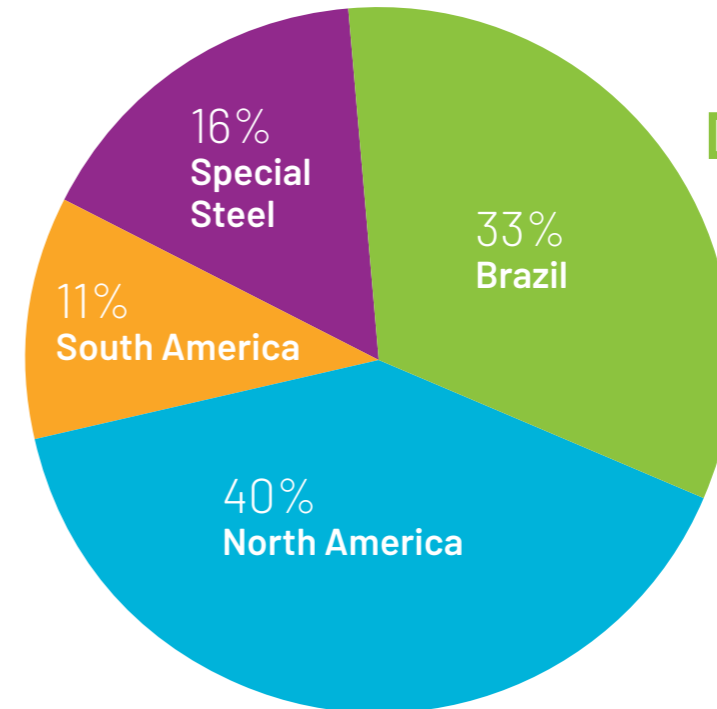
NET SALES

Gerdau closed 2017 with consolidated net sales of R\$ 37 billion, down 2% compared to the prior year, which was influenced by the 4% reduction in consolidated net shipments. In 2017, consolidated shipments amounted to 14.9 million tonnes. Steel production, however, advanced 3% to 16.1 million tonnes in the same period.

Consolidated Net Revenue R\$ 37 billion

Includes the special steel operations in Brazil, United States and India.

Includes all operations in South America (except the operations in Brazil), as well as the joint ventures in the Dominican Republic and Colombia.



Includes the operations in Brazil (except special steel) and the iron ore operation in Brazil.

Includes the long-steel operations in Canada, United States and Mexico, as well the joint venture and associate company in Mexico.

FINANCIAL CAPITAL & OPERATING PERFORMANCE

NONRECURRING ITEMS

In 2017, Gerdau's results were adversely affected by non-recurring non-cash items of R\$ 861 million.

These items refer to the reversal of the provision for contingencies due to the exclusion of ICMS from the PIS and COFINS tax calculation base and to accounting write-offs (fixed assets and goodwill) net of taxes. Due to these non-recurring items, Gerdau is reporting adjusted net income and adjusted cash generation (EBITDA) to better demonstrate its performance and management efforts during the year.

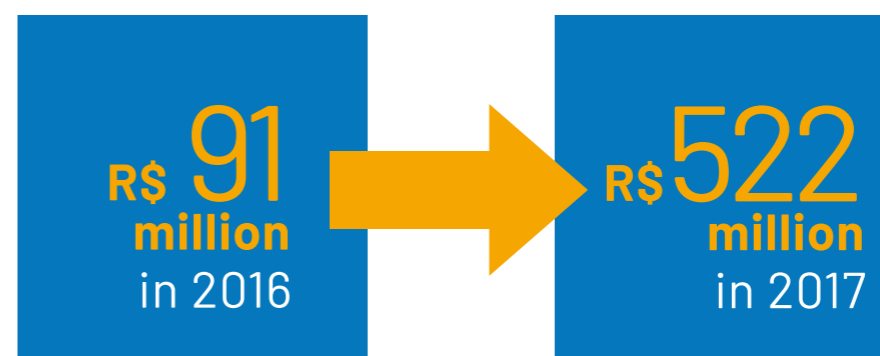
EBITDA

Adjusted EBITDA, which excludes non-recurring items, came to R\$ 4.3 billion in 2017, 7% higher than in the same period last year.



ADJUSTED NET INCOME

Adjusted consolidated net income posted significant growth, from R\$ 91 million in 2016 to R\$ 522 million in 2017.



FINANCIAL CAPITAL & OPERATING PERFORMANCE

DIVIDENDS

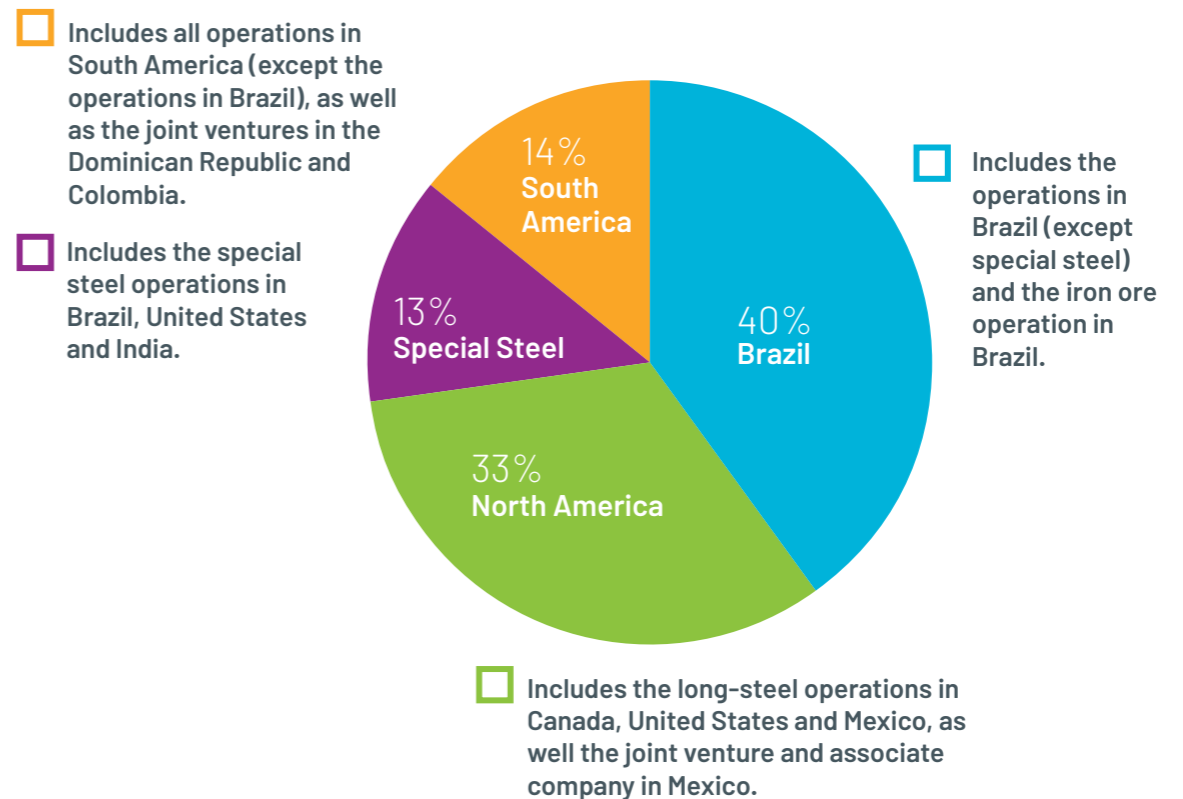
In fiscal year 2017, Gerdau S.A. allocated R\$ 136.5 million (R\$ 0.08 per share) to the payment of dividends, which was distributed from the profits earned. Metalúrgica Gerdau S.A., meanwhile, allocated R\$ 19.5 million (R\$ 0.02 per share), which was debited from the existing profit reserves.

INVESTMENTS

In 2017, investments in fixed assets (CAPEX) amounted to R\$ 873 million. For 2018, CAPEX is projected at R\$ 1.2 billion, which will focus on maintenance and optimizing performance. The growth in CAPEX is due to the shift to 2018 of a portion of the investments projected for 2017.

CAPEX of R\$ 873 million in 2017

By Business Division



FINANCIAL CAPITAL & OPERATING PERFORMANCE

DIVESTMENTS

Gerdau continues to execute its strategy of focusing on its more profitable assets and, since 2014, has conducted **divestments that combined have generated R\$ 6.3 billion in proceeds.** The transactions are aligned with the process to optimize the Company's asset portfolio with a focus on deleveraging.

YEAR	ASSETS SOLD	ECONOMIC VALUE
2014/2015	United States: interest in the flat steel mill Gallatin Steel and two manufacturing units Spain: one manufacturing unit	R\$ 1,1 billion
2016	Spain: special steel operation Colombia: long steel mill and coke production units and coking coal reserves Guatemala: 30% interest in JV Corporación Centroamericana del Acero United States: manufacturing units and land	R\$ 1,3 billion
2017	Colombia: 50% interest in Gerdau Diaco, becoming a JV United States: special steel manufacturing units and plants making products for the construction industry Chile*: Chile operation	R\$ 800 million
2018	United States*: rebar and wire-rod mills and units producing steel goods. Brazil*: hydropower plants in Goiás	R\$ 3,1 billion

*The transaction is subject to authorization from regulatory agencies and typical settlement conditions.



FINANCIAL CAPITAL & OPERATING PERFORMANCE

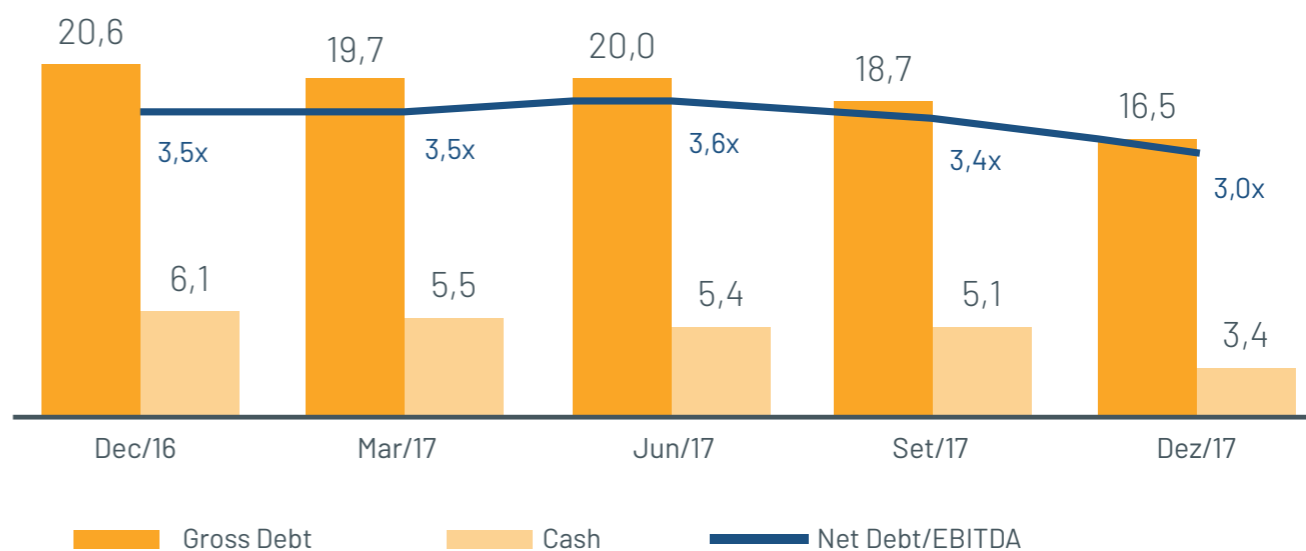
FINANCIAL LIABILITIES

During the year, the efforts made by the Company's management resulted in significant deleveraging. **The R\$ 4.1 billion reduction in gross debt between December 31, 2016 and December 31, 2017** was due to the amortization of debt securities in the U.S. market and of other liabilities to finance working capital and capital expenditures, which also contributed to a reduction in net debt.

With regard to the former amortization, in October 2017, Gerdau repurchased US\$ 552 million in securities due in 2021 and US\$ 35 million in securities due in 2020 (amount of principal in each issue). To support the repurchase, it issued US\$ 650 million in new securities due in 2027 with a coupon of 4.875% p.a. The purpose of these transactions is to lengthen the average debt term and to better balance the maturity schedule for the coming years.

As a result, on December 31, 2017, the nominal weighted average cost of gross debt was 6.4%, or 7.5% for the portion denominated in Brazilian real, 5.5% plus exchange variation for the portion denominated in U.S. dollar contracted by companies in Brazil and 7.2% for the portion contracted by subsidiaries abroad. On December 31, 2017, the average gross debt term was 6.7 years.

Debt (R\$ billion) & Leverage Ratio

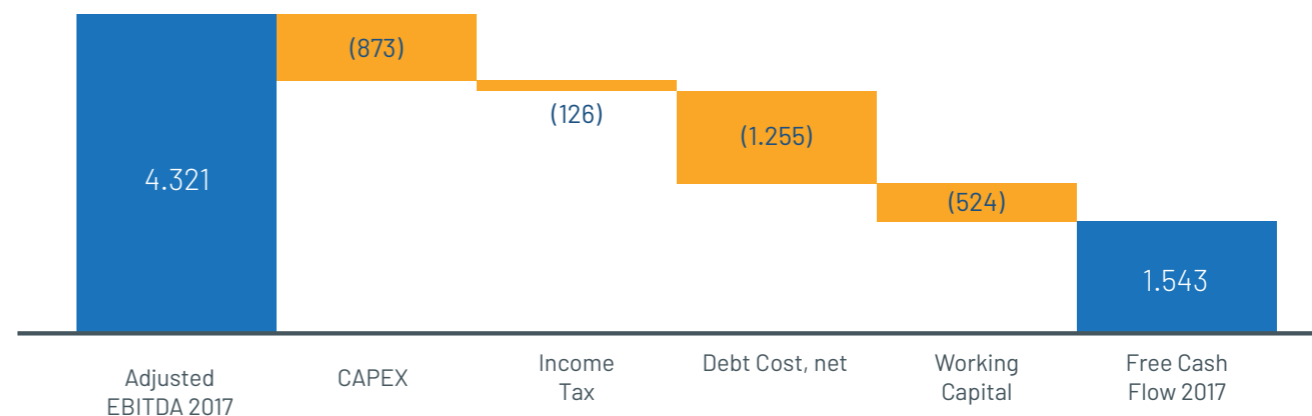


FINANCIAL CAPITAL & OPERATING PERFORMANCE

FREE CASH FLOW

Free cash flow, one of the priorities of Gerdau's financial management, **came to R\$ 1.5 billion in 2017**. The result was supported by EBITDA generation in the period, which was more than sufficient to honor all capital expenditure, income tax and interest commitments as well as the working capital consumption of R\$ 524 million. **This positive free cash flow reflected the Company's strategy grounded in capital discipline**, as was the case in previous years, despite the challenging scenario in the steel industry.

Free Cash Flow 2017





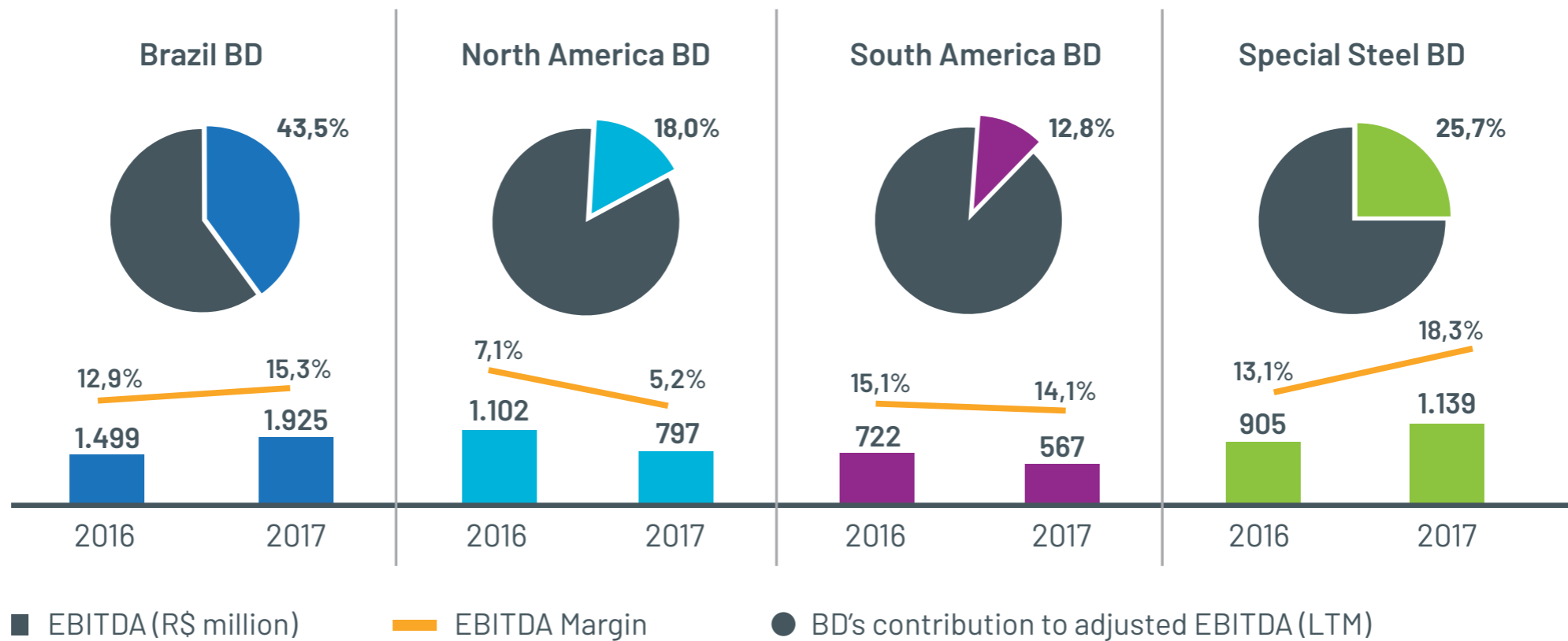
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**OPERATING
AND FINANCIAL
PERFORMANCE**

OPERATING AND FINANCIAL PERFORMANCE

Gerdaу reports its financial results by Business Division, as established in its corporate governance.

EBITDA and EBITDA Margin by Business Division



BRAZIL DIVISION

Includes the operations in Brazil (except special steel) and the iron ore operation in Brazil.

In 2017, steel shipments to Brazil's domestic market came to 3.6 million tonnes, decreasing 2% in relation to 2016, due to the slowdown in the construction industry. Exports from Brazil amounted to 2 million tonnes, down 16% over the prior year. Despite the lower exports, the operation's net sales amounted to R\$ 12.6 billion, an increase of 8% compared to 2016. The division accounted for 33% of Gerdau's consolidated net sales. EBITDA in the year amounted to R\$ 1.9 billion, 28% higher than in 2016.

BRASIL BD	FY 2017	FY 2016	Change 2017/16
Volume (1.000 tonnes)			
Crude steel production	6.131	6.134	0,0%
Long steel sales	4.261	4.555	-6,5%
Domestic Market	2.584	2.703	-4,4%
Exports	1.677	1.852	-9,4%
Flat steel sales	1.347	1.513	-11,0%
Domestic Market	1.033	1.005	2,8%
Exports	314	508	-38,2%
Total sales	5.608	6.068	-7,6%
Domestic Market	3.617	3.708	-2,5%
Exports	1.991	2.360	-15,6%
Results (R\$ million)			
Net sales ¹	12.563	11.635	8,0%
Domestic Market	9.507	8.569	10,9%
Exports	3.056	3.066	-0,3%
Cost of sales	(10.996)	(10.405)	5,7%
Gross profit	1.567	1.230	27,4%
Gross margin (%)	12,5%	10,6%	
EBITDA	1.925	1.499	28,4%
EBITDA margin (%)	15,3%	12,9%	

1 - Includes revenue from iron ore sales.

BRAZIL DIVISION

In the fiscal year, the highlights were the digital innovation initiatives designed to improve customer service and to capture efficiency gains at industrial units. These initiatives are detailed in the section Intellectual Capital, which begins on page 27.

Moreover, **Comercial Gerdau, the Company's commercial units arm in Brazil, inaugurated its first concept store in Recife, called Loja do Aço, which offers a buying and interactive experience that is unprecedented in the country's steel industry.**

The store sets itself apart with its presentation of products, which are

arranged in a showroom with QR codes to provide detailed viewing of the technical specifications on a smartphone. The store also has interactive displays for accessing the product catalog using 360° glasses, which allows customers to immerse themselves in the production process by watching a video on steel production. For 2018, five more concept stores are scheduled to be inaugurated in Brazil.

In the flat steel segment, Gerdau worked during the year to consolidate its entry into the heavy plates market and to expand sales to different regions, such as Latin America, Europe and the Middle East.

Expectations for Brazil's steel industry in 2018 point to growth of 4% in domestic demand, according to the Brazilian Steel Institute. The outlook is for the Brazilian economy to continue developing, led by the manufacturing sector and, at a more gradual pace, the construction sector. Gerdau is ready to meet the potential expansion in Brazilian demand, but, until it materializes, will continue to export part of its production to ensure the division's profitability.



NORTH AMERICA DIVISION

Includes the long-steel operations in Canada, United States and Mexico, as well as the joint venture and associate company in Mexico.

In 2017, the North America Division registered shipments of 6.3 million tonnes, 6% more than in the previous year, supported by continued firm demand from the non-residential construction sector and by less pressure from imported goods in the region.

In the year, the division's net sales amounted to R\$ 15.4 billion, remaining stable in relation to 2016, and accounting for 40% of consolidated net sales. EBITDA declined 28% on the prior year, to R\$ 797 million.

NORTH AMERICA BD	FY 2017	FY 2016	Change 2017/16
Volume (1.000 tonnes)			
Crude steel production	6.764	5.988	13,0%
Steel sales	6.313	5.965	5,8%
Results (R\$ million)			
Net sales	15.433	15.431	0,0%
Cost of sales	(14.824)	(14.515)	2,1%
Gross profit	609	916	-33,5%
Gross margin (%)	3,9%	5,9%	
EBITDA	797	1.102	-27,7%
EBITDA margin (%)	5,2%	7,1%	

NORTH AMERICA DIVISION

In early 2018, the North America Division underwent a significant restructuring that included the announced divestment of its rebar mills in the United States. The purpose of the divestments is to allow the company to focus its efforts in the region on markets with higher profit margins, especially bars, structural profiles and special steel. Despite the disposal of these assets, Gerdau maintains a strong presence in the United States, which, like Brazil, is a priority market for the company.

With regard to the prospects for 2018, market studies point to growth of 4% in long steel consumption in the United States, considering the region's main steel-consuming sectors: non-residential construction, manufacturing, oil and gas. Moreover, the Trump administration is expected to take decisions that could

have a positive influence on steel demand,

such as incentives for infrastructure projects and further developments under Section 232 in tariffs on steel and aluminum imports into the United States.

The expectation is for margins in the North American steel industry to remain pressured throughout 2018. Meanwhile, imports should be somewhat lower compared to 2017, due to higher steel prices in the international market.



SOUTH AMERICA DIVISION

Includes the operations in South America (except Brazil) and the joint ventures in the Dominican Republic and in Colombia.

Shipments in South America came to 1.7 million tonnes, down 17% compared to 2016, while the division's net sales in the fiscal year stood at R\$ 4 billion, 10% lower than in the previous fiscal year. The declines are due to the deconsolidation of the operation in Colombia. In the year, the division accounted for 11% of consolidated net sales. EBITDA declined by 22% to end the year at R\$ 567 million.

SOUTH AMERICA BD	FY 2017	FY 2016	Change 2017/16
Volume (1.000 tonnes)			
Crude steel production	1.043	1.231	-15,3%
Steel sales	1.723	2.088	-17,5%
Results (R\$ million)			
Net sales	4.026	4.776	-15,7%
Cost of sales	(3.523)	(4.103)	-14,1%
Gross profit	503	673	-25,3%
Gross margin (%)	12,5%	14,1%	
EBITDA	567	722	-21,5%
EBITDA margin (%)	14,1%	15,1%	

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SOUTH AMERICA DIVISION

For 2018, the expectation for South America calls for economic growth, especially in Peru, Colombia and Argentina, with Gerdau inaugurating in the latter country a new melt shop in 2017. The melt shop, which was built alongside the existing rolling mill, has installed steel production capacity of 650,000 tonnes. The melt shop, which required investment of US\$ 190 million, will serve primarily the domestic market.



SPECIAL STEEL DIVISION

Includes the special steel operations in Brazil, United States and India.

In 2017, 2 million tonnes were shipped, 6% less than in 2016, reflecting the divestment of the units in Spain in 2016. The division's net sales came to R\$ 6.3 billion, representing a decline of 10% in the year and accounting for 16% of consolidated net sales. Meanwhile, EBITDA advanced 26% to R\$ 1.1 billion.

SPECIAL STEEL BD	FY 2017	FY 2016	Change 2017/16
Volume (1.000 tonnes)			
Crude steel production	2.182	2.324	-6,1%
Steel sales	1.977	2.102	-5,9%
Results (R\$ million)			
Net sales	6.229	6.885	-9,5%
Cost of sales	(5.301)	(6.239)	-15,0%
Gross profit	928	646	43,7%
Gross margin (%)	14,9%	9,4%	
EBITDA	1.139	905	25,9%
EBITDA margin (%)	18,3%	13,1%	

SPECIAL STEEL DIVISION

In 2017, the highlights were the recovery in the automotive industry in Brazil and the growth in special steel exports, with the addition of new clients in the United States, Europe, Latin America, Africa and Asia.

Unlike other types of steel, the production of special steel is characterized by meeting the specific needs of each client, which predominately operate in the automotive industry.

In practice, this means that the composition of the steel is adjusted to give specific characteristics to each product based on its application, such as hardness, malleability, strength, etc. Considering the transformation that the automotive industry is experiencing, with challenges such as lighter, hybrid and autonomous cars, Gerdau receives requests every day for studies of new steel types or improvements to existing products. To meet this new market dynamic, the Company started using artificial intelligence to develop and improve its products. Normally, responses to requests from the auto industry took from 20 to 30 days, but now are resolved in a matter of hours. The adoption of artificial intelligence will result in greater agility in meeting new demands and higher potential profitability for the Company and its business chain.

For 2018, the market prospects for the division are very

positive. The expectation is that Brazil's auto industry post strong sales growth to the both the local and export markets.

Furthermore, Gerdau Summit, a joint venture by Gerdau, Sumitomo Corporation and The Japan Steel Works (JSW), will supply, starting in 2018, forged parts for the wind power industry, which enjoys excellent growth potential.

With regard to the U.S. and Indian markets, strong demand from the auto industry is expected.





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