

OFFERING MEMORANDUM
US\$650,000,000

GERDAU TRADE INC.

(incorporated with limited liability in the British Virgin Islands)



4.875% Bonds Due 2027

Unconditionally and irrevocably guaranteed by
Gerdau S.A.

Gerdau Açominas S.A.

Gerdau Aços Longos S.A.

Gerdau Aços Especiais S.A.

(Each incorporated in the Federative Republic of Brazil)

Gerdau Trade Inc., which we refer to as the “Issuer”, has offered US\$650,000,000 aggregate principal amount of its 4.875% guaranteed bonds, which we refer to as the “bonds.” The bonds were initially sold to investors at a price equal to 99.026% of the principal amount thereof. Interest on the bonds will accrue at a rate of 4.875% per year and will be payable semi-annually in arrears on April 24 and October 24 of each year, commencing on April 24, 2018.

The bonds will mature on October 24, 2027. The Issuer may, at its option, redeem the bonds, in whole but not in part, at a redemption price equal to the greater of 100% of their outstanding principal amount and a “make-whole” amount, in each case plus accrued interest to the date of redemption and additional amounts, if any, at any time. At any time on or after the date that is six months prior to the maturity of the bonds, the Issuer will have the right to redeem the bonds, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the bonds being redeemed plus accrued and unpaid interest on the principal amount of the bonds being redeemed to such redemption date. See “Description of the Bonds—Early Redemption of Bonds.” The bonds will also be redeemable without premium at any time prior to maturity at the Issuer’s option upon the occurrence of specified events relating to applicable tax law, as described under “Description of the Bonds—Early Redemption for Taxation Reasons.” The bonds will also be repayable prior to maturity thereof upon the occurrence of a change of control as described herein. See “Description of the Bonds—Covenants—Repurchase of Bonds upon a Change of Control.”

The bonds are unconditionally and irrevocably, jointly and severally, guaranteed by Gerdau S.A., the parent of the Issuer, which we refer to as the “Company,” and its majority-owned Brazilian subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A., which, collectively, we refer to as the “Guarantors.”

The bonds are senior unsecured obligations of the Issuer, ranking equal in right of payment with all of the Issuer’s other existing and future senior unsecured debt. The guarantees of the bonds rank *pari passu* with all unsecured and unsubordinated obligations of each of the Guarantors. The ranking of the bonds and the guarantees is more fully described in “Description of the Bonds—Ranking.”

Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade the bonds on the Euro MTF Market of that exchange, which we refer to as “Euro MTF”. See “Listing and General Information.”

Investing in the bonds involves risks. See “Risk Factors” beginning on page 15.

Price: 99.026% plus accrued interest, if any, from October 24, 2017

The bonds and the guarantees of the bonds have not been registered under the U.S. Securities Act of 1933, as amended, which we refer to as the “Securities Act,” or under any U.S. state securities laws. Therefore, the bonds were not offered or sold within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable U.S. state securities laws. Accordingly, the bonds were offered and sold (1) to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. See “Notice to Investors” for additional information about eligible offerees and transfer restrictions. To the extent that the offering of the bonds was made to persons within the European Economic Area, it has been exclusively made to “qualified investors” within the meaning of EU Directive 2003/71/EC, which we refer to as the “Prospectus Directive,” and therefore is exempt from the requirement to publish a compliant prospectus under the Prospectus Directive.

The bonds were delivered to purchasers in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on October 24, 2017.

This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectus for securities dated July 10, 2005, as amended.

Joint Book-Running Managers

Citigroup

Santander

November 17, 2017

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You should rely only on the information contained in this offering memorandum. Neither the Company nor the Issuer have authorized anyone to provide you with different information. The initial purchasers are not and the Company and the Issuer are not making an offer of the bonds in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the cover of this offering memorandum regardless of the time of delivery of this offering memorandum or of any sale of the bonds.

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to (i) the “Issuer” refer to Gerdau Trade Inc., a company incorporated with limited liability in the British Virgin Islands, or “BVI”, (ii) “Gerdau”, “the Company” or similar terms refer to Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil, which we refer to as “Brazil,” and its consolidated subsidiaries, (iii) the “Guarantors” refer to Gerdau S.A., Gerdau Açominas S.A., which we refer to as “Gerdau Açominas”, Gerdau Aços Longos S.A., which we refer to as “Gerdau Aços Longos” and Gerdau Aços Especiais S.A., which we refer to as “Gerdau Aços Especiais”, and (iv) “Gerdau Ameristeel” refer to Gerdau Ameristeel Corp., a corporation organized under the laws of the Province of Ontario, Canada, and wholly-owned subsidiary of Gerdau.

In this offering memorandum, references to the initial purchasers refer to Citigroup Global Markets Inc. (“Citigroup”) and Santander Investment Securities Inc. (“Santander”).

The Company and the Issuer are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing bonds, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under “Notice to Investors” in this offering memorandum.

You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This offering memorandum may be used only for the purposes for which it has been published. Neither the Company nor the Issuer have authorized its use for any other purpose. By accepting delivery of this offering memorandum, you agree to these restrictions as well as the acknowledgements, representations and warranties described under “Notice to Investors.”

The Company and the Issuer, having made all reasonable inquiries, confirm that, as of the date of this offering memorandum, the information contained in this offering memorandum with regard to the Issuer, the Company and the other Guarantors is true and accurate in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Company and the Issuer accept responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Company and the terms of the offering and the bonds, including the merits and risks involved.

In connection with this offering, the initial purchasers may over-allot bonds or effect transactions with a view to supporting the market price of the bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the bonds and 60 days after the date of the allotment of the bonds. Any stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The initial purchasers assume no responsibility for, and make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers accept no responsibility in relation to the information contained in this offering memorandum or any other information provided by the Company, the Issuer or any of the Guarantors in connection with the bonds.

No representation is being made to any purchaser of the bonds regarding the legality of an investment in the bonds by such purchaser under any investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding an investment in the bonds.

Neither the U.S. Securities and Exchange Commission, which we refer to as the “SEC,” nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The bonds have not been and will not be issued or placed, distributed, offered or traded in the Brazilian capital markets. The issuance of the bonds has not been nor will be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM. Except under some limited registration exemptions, any public offering or distribution, as defined under Brazilian laws and regulations, of the bonds in Brazil is not legal without prior registration under Law No. 6,385/76, as amended (*Lei do Mercado de Capitais*), or the Capital Markets Law, and Instruction No. 400, issued by the CVM on December 29, 2003, as amended. Documents relating to the offering of the bonds, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the bonds is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the bonds to the public in Brazil. The bonds will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian legislation. Persons wishing to offer or acquire the bonds within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are

also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents. See “Plan of Distribution.”

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

The Company's audited consolidated financial statements as of December 31, 2016 and December 31, 2015, and for each of the three years ended December 31, 2016 included in the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on March 15, 2017, which we refer to as the "2016 Annual Report," and which are incorporated by reference in this offering memorandum, have been presented in Brazilian *reais* and prepared in accordance with International Financial Reporting Standards, which we refer to as "IFRS," as issued by the International Accounting Standards Board, which we refer to as the "IASB."

The Company's unaudited condensed consolidated interim financial statements as of June 30, 2017 and June 30, 2016, and for the six-month periods ended June 30, 2017 and June 30, 2016 included elsewhere in this offering memorandum, which we refer to as the "2017 Interim Financial Information," have been presented in Brazilian *reais* and prepared in accordance with IFRS International Accounting Standard 34, Interim Financial Reporting, as issued by the IASB. Convenience translations from the amounts presented in Brazilian *reais* (R\$) to dollars (US\$) are provided throughout this document applying the exchange rate in effect as of the end of June 2017 of R\$3.3082 per dollar, as presented in the section "Exchange Rates". Convenience translations from amounts presented in Mexican pesos to dollars are provided through this document taking into consideration the applicable exchange rate as of June 30, 2017.

Gerda's operations are located in Argentina, Brazil, Canada, Chile, Colombia, Dominican Republic, India, Mexico, Peru, the United States, Uruguay and Venezuela. The functional currency of an entity is the currency of the primary economic environment where it operates. The consolidated financial statements of the Company are presented in *reais*, which is both the functional and reporting currency of the Company. For purposes of preparing the Company's consolidated financial statements, the balances of each subsidiary of the Company are converted into Brazilian *reais*. The results of operations and financial position of all subsidiaries included in the consolidated financial statements, along with equity investments, which have functional currencies different from the Company's reporting currency are translated into the reporting currency as follows:

- asset and liability balances are translated at the exchange rate in effect at the balance sheet date;
- income and expenses are translated using the average monthly exchange rates for the year; and
- translation gains and losses resulting from the above methodology are recognized in the statement of comprehensive income under the line item "Other reserves—Cumulative translation adjustment"; and
- the amounts presented in the statement of cash flows are derived from the changes in assets and liabilities and income and expenses translated into *reais* pursuant to the same method.

All references in this offering memorandum to "*real*," "*reais*" or "R\$" are to the currency of Brazil. All references in this offering memorandum to "U.S. dollars," "dollars" or "US\$" are to the currency of the United States of America. The references in this offering memorandum to "MXN" are to the currency of Mexico. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. See "Exchange Rates" for more detailed information regarding exchange rates for the Brazilian currency.

Gerda Operating Segments

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

The Company operates through the following business divisions:

- Brazil BD (Brazil Business Division) — includes all operations in Brazil (excluding special steel);
- North America BD (North America Business Division) — includes all operations in North America (Canada, United States and Mexico), except special steels, in addition to associate and jointly-controlled entities, both of which are located in Mexico;
- South America BD (South America Business Division) — includes all operations in South America (Argentina, Chile, Peru, Uruguay and Venezuela), except the operations in Brazil, in addition to the jointly-controlled entities in Colombia and the Dominican Republic; and
- Special Steel BD (Special Steel Business Division) — includes the special steel operations in Brazil, the United States and India.

Installed Capacity and Shipments

As used in this offering memorandum:

- “installed capacity” means the annual projected capacity for a particular facility (excluding the portion that is not attributable to the Company’s 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;
- “tonne” means a metric tonne, which is equal to 1,000 kilograms or 2,204.62 pounds; and
- “consolidated shipments” means the combined volumes shipped from all the Company’s operations in Brazil, South America, North America and Europe/Asia, excluding the Company’s joint ventures and associate companies.

Non-GAAP Financial Measures

A body of generally accepted accounting principles is commonly referred to as “GAAP.” A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable IFRS measure. We present “EBITDA”, “Adjusted EBITDA” and “Net Debt” in this offering memorandum, which are non-GAAP financial measures. We define EBITDA to mean net income for the period after adding back or subtracting, as the case may be: (1) financial results (Financial income, Financial Expenses, Exchange variations, net and Gains and losses on financial instruments, net); (2) income and social contribution taxes; and (3) depreciation and amortization, in each case as determined in accordance with IFRS. We define Adjusted EBITDA to mean: net income, plus financial results, income and social contribution taxes, depreciation and amortization, impairment of assets, results in operations with subsidiaries, reversal of contingent liabilities, net, equity in earnings of unconsolidated companies and proportional EBITDA of associate and jointly-controlled entities. We define Net Debt as total debt less short-term investments, restricted cash, cash and cash equivalents. In managing our business, we rely on Adjusted EBITDA as a means of assessing our operating performance. We believe that Adjusted EBITDA enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. We also believe EBITDA, Adjusted EBITDA and Net Debt are useful bases for comparing our results with those of other companies because it presents results of operations on a basis unaffected by capital structure and taxes. EBITDA is a well recognized performance measurement in the steel industry that is frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. EBITDA, Adjusted EBITDA and Net Debt, however, are not measures of financial performance under IFRS and should not be viewed in isolation nor considered as alternatives to net income, short-term debt or long-term debt, as measures of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA, Adjusted EBITDA and Net Debt have material limitations that impair their value as measures of our overall profitability since they do not address certain ongoing costs of our business that could significantly affect profitability, such as financial results, impairment, depreciation and amortization, among others. Our calculations of EBITDA, Adjusted EBITDA and Net Debt may not be comparable to other

companies' calculation of similarly titled measures. Adjusted EBITDA, in particular, may not be consistent with other companies' calculations and should not be used as an alternative to evaluation of our results presented in accordance with IFRS. For a reconciliation of EBITDA and Adjusted EBITDA to consolidated net income under IFRS, see "Summary Financial and Other Information of Gerdau."

Rounding

The Company has made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

Market Information

The Company makes statements in this offering memorandum about its competitive position and market share in, and the market size of, the steel industry. These statements are based on statistics and other information from third-party sources that the Company believes are reliable. The Company derived this third-party information principally from reports published by the World Steel Association, which we refer to as "Worldsteel," the Brazilian Steel Institute (*Instituto Aço Brasil*), which we refer to as "IABr," the American Iron and Steel Institute, which we refer to as "AISI," and the Commodities Research Unit, which we refer to as the "CRU," among others. Although the Company has no reason to believe that any of the information or these reports is inaccurate in any material respect, the Company has not independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications.

WHERE YOU CAN FIND MORE INFORMATION

To comply with Rule 144A under the Securities Act in connection with resale of the bonds, the Issuer is required to furnish, upon request of a holder of a bond, each a “holder,” or of a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of such request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, which we refer to as the “Exchange Act,” nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Company will agree to furnish the information necessary in order to permit the compliance by the Issuer with the information delivery requirements under Rule 144A(d)(4) under the Securities Act.

Gerdau S.A. is a reporting company subject to the informational requirements of the Exchange Act and, in accordance therewith, files reports and other information with the SEC. As a foreign private issuer, Gerdau S.A. is exempt from the Exchange Act rules regarding the provision and control of proxy statements and regarding short-swing profit reporting and liability. Such reports and other information can be inspected and copied at the public references facilities of the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Gerdau S.A. files materials with, and furnishes material to, the SEC electronically using the EDGAR System. The SEC maintains an Internet site that contains these materials at www.sec.gov. In addition, such reports, and other information concerning Gerdau S.A. can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which equity securities of Gerdau S.A. are listed.

INCORPORATION BY REFERENCE

The Company’s 2016 Annual Report, which has been previously filed with the SEC, is incorporated by reference herein, and will be published on the website of the Luxembourg Stock Exchange.

You may request a copy of the Company’s 2016 Annual Report, at no cost, by contacting Gerdau S.A. at the number or address specified below.

Gerdau’s principal executive office, as well as that for the other Guarantors, is at Av. Farrapos, 1811, Porto Alegre, Rio Grande do Sul, Brazil, and the telephone number at this address is +55 (51) 3323-2000.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These statements relate to the Company's 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 the Company believes 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 the Company.

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

- general economic, political and business conditions in the Company's 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 the Company sells a significant portion of its products or in which its assets and liabilities are denominated;
- the Company's ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;
- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under "Item 3.D. Risk Factors," in our 2016 Annual Report, incorporated by reference herein.

The Company's forward-looking statements are not guarantees of future performance, and the 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.

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

SUMMARY

This summary highlights information presented in greater detail included elsewhere in this offering memorandum or incorporated by reference herein. This summary is not complete and does not contain all the information you should consider before investing in the bonds. You should carefully read this entire offering memorandum before investing, including “Risk Factors,” the Company’s consolidated financial statements included in its 2016 Annual Report, the Company’s 2017 Interim Financial Information and each other document incorporated by reference herein. See “Presentation of Financial and Other Information” and “Summary Financial and Other Information of Gerdau” for information regarding the Company’s consolidated financial statements.

Gerdau

Overview

According to the IABr, 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 18th largest steel producer based on its consolidated crude steel production in 2016 (last information available).

Gerdau operates steel mills that produce steel in blast furnaces (BOF) 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 41 steel producing facilities globally, including joint ventures and associate companies. The joint ventures are Bradley Steel Processors and MRM Guide Rail in Canada, Gerdau Corsa S.A.P.I. de C.V. in Mexico, Gerdau Metaldom Corp in the Dominican Republic, Diaco S.A. in Colombia and Gerdau Summit Aços Fundidos e Forjados in Brazil. The associate companies are Corsa Controladora in Mexico and Dona Francisca Energética S.A.

As of June 30, 2017, total consolidated installed annual capacity, excluding the Company’s investments in joint ventures and associate companies, was 25.5 million tonnes of crude steel and 21.1 million tonnes of rolled steel products. In the same period, the Company had total consolidated assets of R\$54.2 billion and shareholders’ equity (including non-controlling interests) of R\$25.3 billion. In the first half of 2017, consolidated net sales were R\$17.6 billion and total consolidated net income (including non-controlling interests) was R\$0.9 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 rebars, wire rods, structural bars, hot rolled coils and heavy plates; finished products for the consumer goods industry, such as commercial rolled steel bars, light shapes and mesh wire; and products for farming and agriculture, such as poles, smooth wire and barbed wire. Gerdau also produces special steel products, normally with a certain degree of customization, utilizing advanced technology, for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive and mechanical industries.

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

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 Ouro Branco mill to insure against operating losses, which covers amounts up to approximately US\$4.9 billion (as of April 2017), including material damage to installations (US\$4.5 billion) and losses of gross revenues (US\$432.9 million), such as would arise from 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, 2018. The Company’s mini-mills are also covered under insurance policies which insure against certain operational losses resulting from business interruptions.

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; iron ore and pig iron production; as well as fab shops and downstream operations.

Metalúrgica Gerdau S.A. is a holding company that controls, directly and indirectly, all Gerdau companies in Brazil and abroad, including the Guarantors. See “Ownership and Capital Structure.”

Business Strategy

The Company’s goal is to produce high quality steel and steel related products in a cost effective manner that satisfies both the needs of its customers and the goals of its security holders. The Company seeks to accomplish the foregoing through the following measures:

Increase Market Share for Value-Added Products

The Company intends to focus on increasing its market share of value-added products that meet the specific needs of its customers through advanced customization and technology. The four main markets in which the Company operates are:

- construction, to which it supplies rebars, merchant bars, structurals, nails and meshes;
- manufacturing, to which it supplies bars and hot rolled coil for machinery and agricultural implements, tools and other industrial products;
- agriculture, to which it supplies wires and posts for agricultural facilities and reforestation projects; and
- specialty, to which it supplies special quality steel for the manufacture of tools and machinery, chains, locks and springs, mainly for the automotive, energy, oil & gas and mechanical industries.

The Company intends to increase its market share of value-added products in such a way as to directly meet the specific needs of its customers and, consequently, capture the higher prices paid for these products.

In addition, the Company intends to add value to its products through rebar fabricating facilities and downstream operations, such as epoxy coating and production of products with specialty sections, wire and nails, cold-drawn products, elevator guide rails and super-light profiles. Finally, the Company expanded its portfolio of products manufactured by the Company in Brazil, so as to operate in all Brazilian market segments, including flat steel.

Presence in Global Markets

In the six-month period ended June 30, 2017, approximately 34.7% of all physical sales volumes was generated from the Brazil Business Division, 40.8% from the North America Business Division, 12.1% from the South American Business Division and 12.4% from the Special Steel Business Division. According to information provided by SteelontheNet, a steel industry news and information provider, Gerdau has the second largest long steel capacity in the world.

Respond to Customer Needs Through Diversified and Decentralized Production

The Company intends to continue its practice of diversifying production of long steel by using electric arc furnace mini-mills and integrated mills with blast furnaces, with continuous casting technology being used with both processes. All of the Company’s plants are sized and located to meet primarily the needs of local markets and provide efficient access to customers and raw materials. This is a strategy that the Company has developed in response to the geographic size of Brazil, the United States and Canada and the resulting high transportation and freight costs in these countries. The Company is able to supply its customers and obtain raw materials locally, which reduces production and transportation costs and allow it to deliver quality products to its customers at cost-effective prices. The diversification of geographical location of the Company’s mills has allowed it to better serve its clients’

needs by ease of delivery of products. Proximity to its clients in the various geographic locations in which the Company operates also enables it to maintain a productive relationship with its customers, providing it with the ability to tailor production according to the customers' specifications, in particular with respect to merchant bars.

Maintain Multiple Sources of Raw Materials

The Company does business with several steel scrap distributors worldwide and numerous suppliers for pig iron, iron ore and, to a lesser extent, coking coal. In Brazil, the majority of the scrap suppliers are captive and the Company works with a variety of collection units and scrap processing companies. Gerdau believes it is one of Latin America's biggest recyclers 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. The Company 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 and other materials imported from the United States, Colombia, Canada, Russia and Ukraine, as well as petroleum coke purchased from Petrobrás; and (ii) iron ore, which is mainly produced from the Company's own mines and partially supplied by medium and small sized mining companies, most of them strategically located close to the plants. The Company believes that this allows it to avoid any dependency on specific suppliers and reduces possible negative impacts in the event of raw material shortages. The Company believes that the diversification of productive processes mitigates its exposure to the scarcity of inputs.

Continued Focus on Technology and Efficient Operations

The Company believes that continuous focus on technology will allow it to maintain its position as a world class steel producer. In the first half of 2017, investments in fixed assets focused on maintenance and productivity totaled R\$431.8 million. Of this total, 40.2% was allocated to units in Brazil and the remaining 59.8% was allocated to the other operations among the countries in which Gerdau operates. The disbursements in fixed assets planned for 2017 are estimated at R\$1.3 billion in maintenance and productivity investments.

The Company believes that attention to its production processes and upgrading where appropriate will allow it to continue to maintain its efficiencies and deliver products that are responsive to the needs of its customers. In addition, the Company continues to seek ways in which it can improve the efficiency in its production process by, among other things:

- using proven quality management control systems, including a proprietary management system that supports the Company's operations and integrates acquired mills, most of the internationally recognized techniques and processes and ISO 14,000 processes;
- reducing production costs by implementing efficient control processes and using less expensive raw materials and fuels and adopting new process technologies;
- reducing energy consumption, with an emphasis on using more energy-efficient processes, such as reuse of in-plant generated energy in the Company's Ouro Branco mill;
- reducing inventory levels, which decreases its need for working capital;
- increasing revenues by adding value to its products through selected, focused investments in the Company's mills; and
- implementing digital innovation in its operations with apps, virtual reality, drones, digital platforms and other technologies.

Industry Cyclicity

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 prices of steel products are generally sensitive to changes in world and local demand, which in turn are affected by economic conditions in the world and in the specific country. The prices of steel products are also linked to available installed capacity. Most of the Company's long rolled steel products, including rebars, merchant bars and common wire rods, are classified as commodities. However, a

significant portion of the Company's long rolled products, such as special steel, wire products and drawn products, are not considered commodities due to differences in shape, chemical composition, quality and specifications, with all of these factors affecting prices. Accordingly, there is no uniform pricing for these products.

Over the last ten years, annual world crude steel production volume has varied from between 1,348 million tonnes and 1,630 million tonnes. According to Worldsteel, world crude steel production in 2016 was 1,630 million tonnes, 0.6% higher than in 2015. China's crude steel production in 2016 reached 808 million tonnes, an increase of 0.6% over 2015. In 2016, China's share of world steel production was 49.6% of total crude steel. According to Worldsteel, world demand for finished steel products increased by 0.7% in 2014, decreased by 2.9% in 2015 and increased by 1.0% in 2016. For 2017, the forecast calls for growth of 1.3%, since the current scenario is a stabilization of the Chinese economy and recoveries in developed economies continue to advance.

Gerdau Trade Inc.

Gerdau Trade Inc. or the "Issuer" is the Company's wholly-owned direct subsidiary. The Issuer was incorporated on August 23, 2010 with company number 1601859 as a BVI Business Company with limited liability under the BVI Business Companies Act, 2004 (as amended) of the British Virgin Islands for the purpose of performing offshore financing activities incidental to the Company's business.

As of the date hereof, the Issuer is authorized to issue a maximum of 50,000 par value shares of a single class all of which have been issued and are fully paid up. The registered office of the Issuer is 3rd Floor, J&C Building, Wickhams Cay I, P.O. Box 933, Road Town, Tortola, British Virgin Islands.

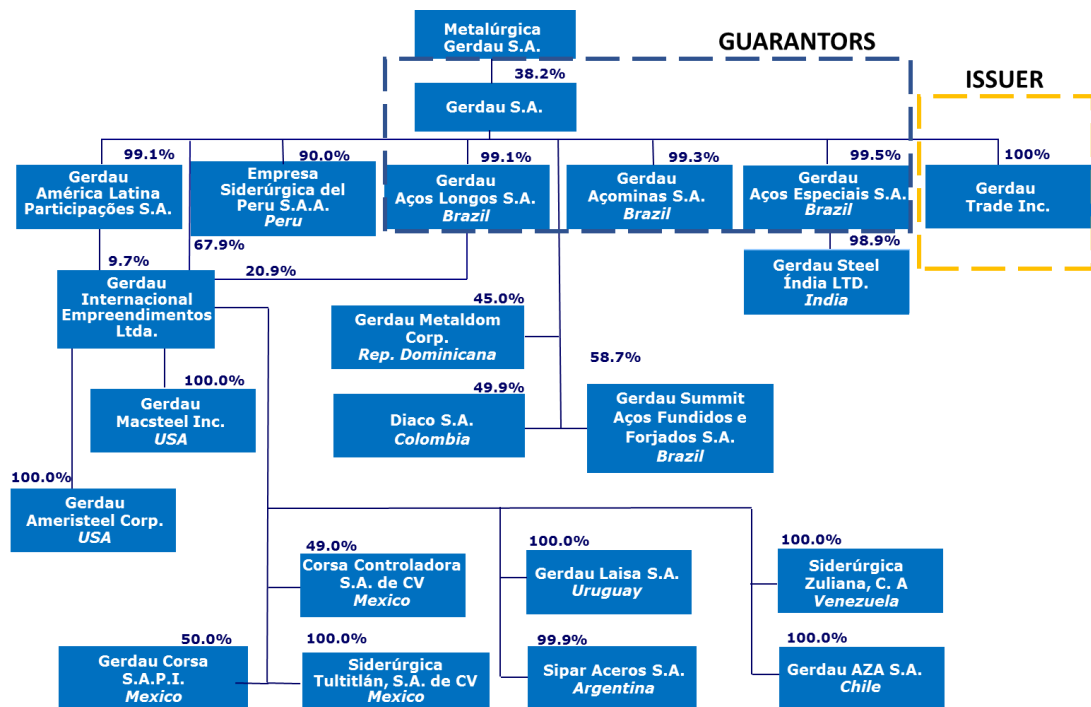
The Issuer concluded in 2010 and 2013 the issuance of bonds each with maturity of 10 years. The following companies guarantee these transactions: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. On December 31, 2016, the outstanding balance of these bonds was R\$5.2 billion.

The Company has not included any financial statements for the Issuer in this offering memorandum. The Issuer will not publish financial statements, except for such financial statements which it may be required to publish under the laws of the British Virgin Islands. In addition, the Issuer does not intend to furnish to the trustee or the holders of the bonds any financial statements of, or other reports relating to, the Issuer. The Issuer is fully consolidated in the consolidated financial statements of the Company.

The Guarantors

The Issuer's obligations under the bonds will be unconditionally and irrevocably, jointly and severally, guaranteed by the group's principal operating entities in Brazil: Gerdau (which is the ultimate parent entity that owns all of the Gerdau businesses) and the other Guarantors, each of which is a majority-owned Brazilian operating subsidiary of Gerdau.

The following chart summarizes the operational structure of the Company's principal operating subsidiaries (including the Issuer) engaged in the steel production business showing its percentage of total capital as of June 30, 2017:



Gerdau Açominas focuses on the production of crude steel (billets, blooms and slabs), long and flat rolled products. Gerdau Aços Longos focuses on the production of common long steel, and Gerdau Aços Especiais focuses on the production of crude steel and rolled products.

See “Company Information” in Item 4 of the Company’s 2016 Annual Report, incorporated by reference into this offering memorandum, for additional information regarding the Guarantors. You may also find updated information on our internet website, www.gerdau.com. Information contained in our website does not constitute part of this offering memorandum.

SUMMARY OF THE OFFERING

This summary describes the principal terms of the indenture governing the bonds and the guarantees of the bonds. Certain terms described below are subject to important limitations and exceptions. The “Description of the Bonds” section of this offering memorandum contains a more detailed description of the terms and conditions of the bonds and the guarantees of the bonds.

Issuer	Gerdau Trade Inc., incorporated with limited liability in the British Virgin Islands.
Guarantees	The bonds are guaranteed on a senior unsecured basis by Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A., and Gerdau Aços Especiais S.A., which we collectively refer to as the “Guarantors.”
Bonds offered	US\$650,000,000 aggregate principal amount of 4.875% bonds.
Interest rate	The bonds will bear interest from October 24, 2017 at the annual rate of 4.875%, payable semi-annually in arrears on each interest payment date.
Interest payment dates	April 24 and October 24, commencing on April 24, 2018.
Issue price	99.026% of the principal amount, plus accrued interest, if any, from October 24, 2017.
Maturity	October 24, 2027.
Ranking of the bonds and the guarantees	<p>The bonds are the Issuer’s senior unsecured obligations ranking:</p> <ul style="list-style-type: none"> • at least <i>pari passu</i> in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain statutory preferences under applicable law, including labor and tax claims; • senior in right of payment to any subordinated debt of the Issuer; and • structurally subordinated to the debt and other obligations (including subordinated debt and trade payables) of the Company’s subsidiaries that are not Guarantors and to the Company’s secured debt and other secured obligations to the extent of such security. <p>The guarantees are each Guarantor’s senior unsecured obligations ranking:</p> <ul style="list-style-type: none"> • <i>pari passu</i> in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain

statutory preferences under applicable law, including labor and tax claims;

- senior in right of payment to any subordinated debt of that Guarantor; and
- structurally subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor's subsidiaries and to secured debt and other secured obligations of that Guarantor and its subsidiaries to the extent of such security.

See "Description of the Bonds—Ranking."

Early redemption of Bonds	The Issuer may, at its option, redeem the bonds, in whole but not in part, at a redemption price equal to the greater of 100% of their outstanding principal amount and a "make-whole" amount, in each case plus accrued interest to the date of redemption and additional amounts, if any, at any time. At any time on or after the date that is six months prior to the maturity of the bonds, the Issuer will have the right to redeem the bonds, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the bonds being redeemed plus accrued and unpaid interest on the principal amount of the bonds being redeemed to such redemption date. See "Description of the Bonds—Early Redemption of Bonds."
Early redemption of bonds for taxation reasons	The Issuer may, at its option, redeem the bonds, in whole but not in part at 100% of their principal amount plus accrued interest to the date of redemption and additional amounts, if any, upon the occurrence of specified events relating to applicable tax laws. See "Description of the Bonds—Early Redemption for Taxation Reasons."
Additional amounts.....	Payments of principal and interest on the bonds will be made without withholding and deduction for any present or future taxes, except as required by applicable law. The Issuer, in respect of the bonds, and the Guarantors, in respect of the guarantees, will pay such additional amounts as will result in receipt by the holders of bonds of such amounts as would have been received by them had no such withholding or deduction for taxes been required, subject to certain exceptions set forth under "Description of the Bonds—Additional Amounts."
Change of control offer.....	Upon the occurrence of a change of control that results in a ratings decline, Gerdau, acting on behalf of the Issuer, will make an offer to purchase all outstanding bonds (including all the outstanding existing bonds) at a purchase price equal to 101% of their principal amount plus accrued interest to the date of purchase, as described

	under “Description of the Bonds—Covenants—Repurchase of Bonds upon a Change of Control.”
Use of proceeds	The net proceeds from the sale of the bonds will be made available to the Company and its subsidiaries, to be used by the Company and its subsidiaries to repay indebtedness (which may include indebtedness owed to one or more of the initial purchasers) and for general corporate purposes. See “Use of Proceeds”.
Covenants	<p>The indenture governing the bonds and the guarantees of the Guarantors restricts the ability of the Issuer, the Guarantors and their subsidiaries to:</p> <ul style="list-style-type: none"> • create liens; • enter into transactions with affiliates; and • consolidate with or merge with or into another person or transfer assets to another person. <p>Each of these covenants is subject to exceptions and limitations. See “Description of the Bonds—Covenants.”</p>
Events of default.....	For a discussion of certain events of default that will permit acceleration of the principal of the bonds plus accrued interest, see “Description of the Bonds—Events of Default.”
Further issuances	The Issuer may from time to time without notice to or consent of the holders of bonds create and issue an unlimited principal amount of additional bonds of the same series as the bonds initially issued in this offering.
Form and denomination; settlement	<p>The bonds have been issued in the form of global bonds in fully registered form without interest coupons, as described under “Form of the Bonds.” The global bonds are exchangeable or transferable, as the case may be, for definitive certificated bonds in fully registered form without interest coupons only in limited circumstances. The bonds have been issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. See “Description of the Bonds—Form, Denomination and Title” and “Form of the Bonds.”</p> <p>The bonds have been delivered in book-entry form through the facilities of The Depository Trust Company, which we refer to as “DTC,” for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, which we refer to as “Euroclear,” and Clearstream Banking, S.A., which we refer to as “Clearstream Luxembourg,” and will trade in DTC’s Same-Day Funds Settlement System.</p>

Notice to investors	The bonds have not been, and will not be, registered under the Securities Act and are subject to limitations on transfers, as described under “Notice to Investors.”
Listing	Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade the bonds on the Euro MTF. The Issuer cannot assure you, however, that the bonds will remain so listed. The Issuer will at all times use its reasonable efforts to maintain the listing of the bonds on the Euro MTF.
Governing law	The indenture and the bonds will be governed by the laws of the State of New York.
Trustee, principal paying agent, registrar and transfer agent	The Bank of New York Mellon.
Luxembourg paying agent and transfer agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Risk factors	You should carefully consider the risk factors discussed elsewhere in this offering memorandum and in “Item 3.D. Risk Factors” in the Company’s 2016 Annual Report, incorporated by reference herein before purchasing any bonds. See “Risk Factors.”

SUMMARY FINANCIAL AND OTHER INFORMATION OF GERDAU

The following table sets forth Gerdau's summary financial information, presented in Brazilian *reais*.

The summary financial data as of December 31, 2016 and December 31, 2015 and for each of the three years in the period ended December 31, 2016 have been derived from the Company's audited consolidated financial statements prepared in accordance with IFRS, as issued by the IASB, appearing in the Company's 2016 Annual Report, incorporated by reference in this offering memorandum. The summary financial data as of June 30, 2017 and June 30, 2016 and for the six-month periods ended June 30, 2017 and June 30, 2016 have been derived from the Company's unaudited condensed consolidated interim financial information prepared in accordance with IAS 34, "Interim Financial Reporting", as issued by the IASB, included elsewhere in this offering memorandum.

The Company has not included any financial statements for the Issuer in this offering memorandum. The Issuer will not publish financial statements.

The summary financial information below should be read in conjunction with "Recent Business Developments and Financial Results" and "Presentation of Financial and Other Information" and the Company's consolidated financial statements incorporated by reference to its 2016 Annual Report and 2017 Interim Financial Information.

	(Expressed in thousands of Brazilian Reais- R\$ except quantity of shares and amounts per share)				
	2016	2015	2014	June 30, 2017	June 30, 2016
NET SALES	37,651,667	43,581,241	42,546,339	17,624,517	20,333,289
Cost of sales.....	(34,187,941)	(39,290,526)	(37,406,328)	(16,033,919)	(18,437,307)
GROSS PROFIT	3,463,726	4,290,715	5,140,011	1,590,598	1,895,982
Selling expenses	(710,766)	(785,002)	(691,021)	(271,743)	(389,941)
General and administrative expenses.....	(1,528,262)	(1,797,483)	(2,036,926)	(588,186)	(831,519)
Impairment of assets	(2,917,911)	(4,996,240)	(339,374)	—	—
Results in operations with subsidiaries	—	—	—	(72,478)	(105,048)
Results in operations with subsidiaries, associate and jointly controlled entity	(58,223)	—	636,528	—	—
Other operating income	242,077	213,431	238,435	139,934	102,057
Other operating expenses.....	(114,230)	(116,431)	(150,542)	(37,702)	(33,928)
Reversal of contingent liabilities, net	—	—	—	929,711	—
Equity in earnings (losses) of unconsolidated companies	(12,771)	(24,502)	101,875	(3,239)	(7,690)
INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	(1,636,360)	(3,215,512)	2,898,986	1,686,895	629,913
Financial income.....	252,045	378,402	276,249	125,914	120,812
Financial expenses.....	(2,010,005)	(1,780,366)	(1,397,375)	(917,017)	(1,009,302)
Exchange variations, net.....	851,635	(1,564,017)	(476,367)	(21,351)	942,616
Reversal of monetary update of contingent liabilities, net	—	—	—	369,819	—
Gains and losses on financial instruments, net.....	(38,930)	87,085	36,491	(8,606)	(38,220)
INCOME (LOSS) BEFORE TAXES	(2,581,615)	(6,094,408)	1,337,984	1,235,654	645,819

Current.....	(110,511)	(158,450)	(571,926)	(145,927)	(80,454)
Deferred.....	(193,803)	1,656,872	722,315	(189,666)	(471,970)
Income and social contribution taxes.....	(304,314)	1,498,422	150,389	(335,593)	(552,424)
NET INCOME (LOSS)	<u>(2,885,929)</u>	<u>(4,595,986)</u>	<u>1,488,373</u>	<u>900,061</u>	<u>93,395</u>
ATRIBUTABLE TO:					
Owners of the parent.....	(2,890,811)	(4,551,438)	1,402,873	890,364	81,773
Non-controlling interests	4,882	(44,548)	85,500	9,697	11,622
	<u>(2,885,929)</u>	<u>(4,595,986)</u>	<u>1,488,373</u>	<u>900,061</u>	<u>93,395</u>

(Expressed in thousands of Brazilian Reais-
R\$ except quantity of shares and amounts per share)

	2016	2015	2014	June 30, 2017	June 30, 2016
Basic earnings (loss) per share — in R\$					
Common.....	(1.70)	(2.69)	0.82	0.52	0.05
Preferred.....	(1.70)	(2.69)	0.82	0.52	0.05
Diluted earnings (loss) per share — in R\$					
Common.....	(1.70)	(2.69)	0.82	0.52	0.05
Preferred.....	(1.70)	(2.69)	0.82	0.52	0.05
Cash dividends declared per share — in R\$					
Common.....	0.05	0.15	0.25	0.02	0.03
Preferred.....	0.05	0.15	0.25	0.02	0.03

	On December 31,			On June 30,	
	2016	2015	2014	2017	2016
	(Expressed in thousands of Brazilian Reais - R\$)				
Balance sheet selected information					
Cash and cash equivalents	5,063,383	5,648,080	3,049,971	4,305,434	3,809,424
Short-term investments ⁽¹⁾	1,024,411	1,270,760	2,798,834	1,124,769	1,067,515
Current assets.....					17,297,171
	17,796,740	22,177,498	20,682,739	17,895,994	
Current liabilities	8,621,509	7,863,031	7,772,796	8,608,157	6,079,653
Net working capital ⁽²⁾	9,175,231			9,287,837	11,217,518
		14,314,467	12,909,943		
Property, plant and equipment, net					20,164,831
	19,351,891	22,784,326	22,131,789	18,502,051	
Net assets ⁽³⁾					27,760,998
	24,274,653	31,970,383	33,254,534	25,345,777	
Total assets					58,233,705
	54,635,141	70,094,709	63,042,330	54,175,125	
Short-term debt (including “Current Portion of Long-Term Debt”).....	4,458,220	2,387,237	2,037,869	4,186,259	1,959,362
Long-term debt, less current portion.....					18,496,870
	15,959,590	23,826,758	17,148,580	15,646,225	
Debentures - short term	—	—	—	—	—
Debentures - long term	165,423	246,862	335,036	131,797	217,817
Equity					27,760,998
	24,274,653	31,970,383	33,254,534	25,345,777	
Capital					19,249,181
	19,249,181	19,249,181	19,249,181	19,249,181	

(1) Includes held for trading.

(2) Total current assets less total current liabilities.

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

	For the year ended On December 31,			For the six months ended On June 30,	
	2016	2015	2014	2017	2016
(in thousands of Brazilian reais - R\$)					
Other Selected Financial and Operating Information					
Cash Flow Data:					
Cash flows from operating activities	3,516,366	7,162,318	2,570,861	16,784	1,472,832
Cash flows (used in) investing activities	(1,069,241)	(2,421,657)	(1,340,720)	(211,615)	(850,257)
Cash flows (used in) financing activities.....	(2,337,832)	(2,841,842)	(523,423)	(566,976)	(1,759,217)
Operating Data (in thousand tons):					
Consolidated shipments	15,558	16,970	17,869	7,298	8,091
Total production of long rolled steel ⁽¹⁾	14,045	15,327	16,201	6,704	7,346
Total production of flat rolled steel ⁽¹⁾	1,513	1,643	1,668	594	745
Other Information:					
Additions to property, plant and equipment ⁽⁸⁾	1,323,891	2,324,718	2,266,702	431,850	811,496
Depreciation and amortization	2,535,955	2,607,909	2,227,396	1,054,233	1,298,492
EBITDA:					
Net Income for the period	(2,885,929)	(4,595,986)	1,488,373	900,061	93,395
(+) Financial results (financial expenses, financial income, exchange variations, net and gains and losses on financial instruments, net)	945,255	2,878,896	1,561,002	451,241	(15,906)
(+) Income and social contribution taxes.....	304,314	(1,498,422)	(150,389)	335,593	552,424
(+) Depreciation and amortization	2,535,955	2,607,909	2,227,396	1,054,233	1,298,492
(=) EBITDA ⁽²⁾	899,595	(607,603)	5,126,382	2,741,128	1,928,405
Adjusted EBITDA:					
(+) Impairment of assets.....	2,917,911	4,996,240	339,374	-	-
(+ / -) Results in operations with subsidiaries.....	58,223	-	(636,528)	72,478	105,048
(-) Reversal of contingent liabilities, net.....	-	-	-	(929,711)	-
(-) Equity in earnings of unconsolidated companies.....	12,771	24,502	(101,875)	3,239	7,690
(+) Proportional EBITDA of associate and jointly-controlled entity ⁽¹⁰⁾	159,552	88,446	179,163	86,661	90,320
Adjusted EBITDA ⁽⁹⁾	4,048,052	4,501,585	4,906,516	1,973,795	2,131,463
Total Debt ⁽⁴⁾	20,583,233	26,460,857	19,521,485	19,964,281	20,674,049
Interest Amounts (12-month period) ⁽⁷⁾	2,236,310	1,906,757	1,493,153	2,015,744	2,248,496
Ratios:					
Total Debt ⁽⁴⁾ /Adjusted EBITDA ⁽⁹⁾ (12-month period ended on) ⁽⁵⁾	5.08	5.88	3.98	5.13	4.77
Adjusted EBITDA (12-month period ended on) ⁽⁹⁾ /Interest Amounts (12-month period ended on) ⁽⁶⁾	1.81	2.36	3.29	1.93	1.93
Current liquidity ratio ⁽³⁾	2.06	2.82	2.66	2.08	2.85

(1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products are sold directly to external customers and the remainder used in the rolling process.

(2) EBITDA is a non-GAAP metric equal to net income, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on financial instruments (net), plus provision for income taxes, plus depreciation and amortization. EBITDA is not a measure of financial performance calculated in accordance with IFRS and management believes EBITDA should not be construed as an alternative to net income determined in accordance with IFRS, as a performance indicator or as an alternative to cash flows from operations as a measure of liquidity and cash flows. EBITDA does not have standardized meaning and our definition of EBITDA may not be comparable to EBITDA as used by other companies. However, because EBITDA does not account for certain costs intrinsic to our business, which could, in turn, materially affect our profits, such as financial expenses, taxes, depreciation, capital expenditures and other related charges, EBITDA presents limitations that affect its use as a measure of our profitability. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results, and it is calculated in accordance with covenants of our most significant outstanding indebtedness. Gerdau believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations. Net income is the most directly comparable GAAP measure.

(3) Current liquidity ratio is a non-GAAP metric and consists of current assets divided by current liabilities derived from the Company's consolidated financial statements prepared in accordance with IFRS.

(4) Total debt is a non-GAAP metric defined as short-term and long-term debt plus debentures.

(5) The ratio of Total Debt to Adjusted EBITDA is calculated in accordance with our outstanding indebtedness, which calculation may not be comparable to similarly titled measures of other companies, using Total Debt as of December 31, 2016, 2015 and 2014 and June 30, 2017 and 2016, and Adjusted EBITDA for the twelve-month periods ended December 31, 2016, 2015 and 2014 and the twelve-month periods ended June 30, 2017 and 2016.

(6) The ratio of Adjusted EBITDA to Interest Expense is calculated in accordance with covenants of our most significant outstanding indebtedness (short-term debt, long-term debt and debentures) containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using the Adjusted EBITDA for the twelve-month periods ended December 31, 2016, 2015 and 2014 and the twelve-month periods ended June 30, 2017 and 2016, and Interest Expense (including financial expenses; gains and losses on financial instruments, net; and capitalized interest and financial charges) for the twelve-month periods ended December 31, 2016, 2015 and 2014 and the twelve-month periods ended June 30, 2017 and 2016.

(7) Includes Financial Expenses, Gain and losses on financial instruments (net) and Capitalized borrowing costs. For the columns referred to as “For the six months ended on June 30”, the amount presented for 2017 presents the 12-month period ended on June 30, 2017 calculated by subtracting the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2016 from the amounts presented in the Company’s financial statements for the year ended December 31, 2016, in order to get the amounts for the second half of 2016, and adding the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2017, in order to get the amounts of the first half of 2017. The amounts presented for 2016 presents the 12-month period ended on June 30, 2016 calculated by subtracting the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2015 from the amounts presented in the Company’s financial statements for the year ended December 31, 2015, in order to get the amounts for the second half of 2015, and adding the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2016, in order to get the amounts of the first half of 2016.

(8) Capital expenditures are presented in “Additions to property, plant and equipment” under cash flows from investing activities.

(9) Adjusted EBITDA is a non-GAAP metric equal to net income, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on financial instruments (net), provision for income taxes, depreciation and amortization, impairment of assets, results in operations with subsidiaries, associate and jointly-controlled entity, reversal of contingent liabilities, net, equity in earnings of unconsolidated companies and proportional EBITDA of associate and jointly-controlled entities. Adjusted EBITDA is not a measure of financial performance calculated in accordance with IFRS. For the columns referred to as “For the six months ended on June 30”, the amount presented for 2017 presents the 12-month period ended on June 30, 2017 calculated by subtracting the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2016 from the amounts presented in the Company’s financial statements for the year ended December 31, 2016, in order to get the amounts for the second half of 2016, and adding the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2017, in order to get the amounts of the first half of 2017. The amounts presented for 2016 presents the 12-month period ended on June 30, 2016 calculated by subtracting the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2015 from the amounts presented in the Company’s financial statements for the year ended December 31, 2015, in order to get the amounts for the second half of 2015, and adding the amounts presented in the Company’s financial statements for the six-month period ended June 30, 2016, in order to get the amounts of the first half of 2016.

(10) Proportional EBITDA of associate and jointly-controlled entity is a non-GAAP metric that reflects the Company’s proportionate interest in the EBITDA of its associate and jointly-controlled entities.

RISK FACTORS

Prospective purchasers of bonds should carefully consider the risks described below and those described in “Item 3.D. Risk Factors” of Gerdau’s 2016 Annual Report, incorporated by reference in this offering memorandum, as well as the other information in this offering memorandum (including information incorporated by reference herein), before deciding to purchase any bonds. The Company’s business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of the bonds could decline and you could lose all or part of your investment.

Risks Relating to Brazil

Ongoing Political Instability in Brazil May Adversely Affect the Brazilian Economy and Have a Material Adverse Effect On the Company.

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

Recently, the deteriorating political environment in Brazil has contributed to economic instability. In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as “Lava Jato”, have negatively impacted the political environment.

In August 2016, the Brazilian Senate approved the removal of Dilma Rousseff, Brazil’s then-President, from office, after completion of the legal and administrative process for impeachment, for infringing budgetary laws. Michel Temer, the former Vice-President, who had previously assumed the interim presidency of Brazil since Ms. Rousseff’s suspension in May, was sworn in by the Brazilian Senate to serve out the remainder of the presidential term until the next general election in October 2018. There was an ongoing proceeding before the Brazilian Higher Electoral Court (*Tribunal Superior Eleitoral*) alleging that the electoral alliance between Ms. Rousseff and Mr. Temer in the 2014 general election had violated campaign finance laws. On June 9, 2017, the Brazilian Higher Electoral Court absolved Mr. Temer of wrongdoing, however, he is still being subjected to heightened scrutiny due to the ongoing Lava Jato investigations. Subsequently in June 2017, additional corruption charges were levied against Mr. Temer. In August 2017, the Brazilian Chamber of Deputies narrowly voted against having these charges heard by the Brazilian Supreme Court, which is the only tribunal in Brazil tasked with adjudicating allegations against a sitting president. Despite these findings, Mr. Temer is still subject to investigations being conducted by the Brazilian Federal Police and the Office of the Brazilian Federal Prosecutor and may be indicted in connection with certain allegations of corruption and ultimately subject to impeachment proceedings. On September 13, 2017 new corruption charges were presented against Mr. Temer, on September 21, 2017 the Brazilian Supreme Court decided that such new charges will be submitted to the Brazilian Chamber of Deputies. If approved by two-thirds of the members of the Brazilian Chamber of Deputies, the charges will be heard before the Brazilian Supreme Court, and Mr. Temer will be removed from his office for six months, or until a final ruling from the Brazilian Supreme Court is made, whichever comes first. We cannot predict which policies Mr. Temer may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse effect on the Company.

In addition, political demonstrations in Brazil over the last few years have affected the development of the Brazilian economy and investors’ perceptions of Brazil. For example, street protests, which started in mid-2013 and continued through 2016, demonstrated the public’s dissatisfaction with the worsening Brazilian economic condition (including an increase in inflation and fuel prices as well as rising unemployment), the perception of widespread corruption.

The effects on the macroeconomic situation in Brazil caused in part by the existing political and economic instability has had, and may continue to have, an adverse effect on us. Continuing political instability in Brazil could also materially adversely affect the Company.

Any Further Downgrading of Brazil's Credit Rating Could Adversely Affect the Price of the Bonds.

We can be adversely affected by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

Brazil has lost its investment grade sovereign debt credit rating by the three main U.S. based credit rating agencies, Standard & Poor's, Moody's and Fitch. Standard & Poor's downgraded Brazil's sovereign debt credit rating from BBB-minus to BB-plus in September 2015, subsequently reduced it to BB in February 2016, and maintained its negative outlook on the rating, citing Brazil's fiscal difficulties and economic contraction as signs of a worsening credit situation. In December 2015, Moody's placed Brazil's Baa3 sovereign debt credit rating on review and downgraded Brazil's sovereign credit rating in February 2016 to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's indebtedness figures amid a recession and challenging political environment. Fitch downgraded Brazil's sovereign credit rating to BB-plus with a negative outlook in December 2015, citing the country's rapidly expanding budget deficit and worse-than-expected recession, and further downgraded Brazil's sovereign debt credit rating in May 2016 to BB with a negative outlook.

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently the prices of securities issued by Brazilian companies have been negatively affected. A prolongation or worsening of the current Brazilian recession and continued political uncertainty, among other factors, could lead to further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, adversely affect the price of the bonds.

Risks Relating to the Bonds

Securities Laws Will Restrict Your Ability to Transfer the Bonds.

The bonds have not been registered under the Securities Act and applicable U.S. state securities laws and will be subject to transfer restrictions in order to ensure compliance with federal and U.S. state securities laws. You may not sell the bonds in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The bonds and the indenture contain provisions that restrict the bonds from being offered, sold or otherwise transferred except pursuant to certain exemptions under the Securities Act.

An Active Trading Market for the Bonds May Not Develop.

The bonds constitute a new issue of securities, for which there is no existing market. The Company cannot provide you with any assurances regarding the development of a market for the bonds, the ability of holders of the bonds to sell their bonds, or the price at which such holders may be able to sell their bonds.

Accordingly the Company cannot assure you that an active trading market for the bonds will develop or, if a trading market develops, that it will continue. The lack of an active trading market for the bonds would have a material adverse effect on the market price and liquidity of the bonds. If a market for the bonds develops, the bonds may trade at a discount from their initial offering price.

Restrictions On the Movement of Capital Out of Brazil May Impair the Ability of Holders of the Bonds to Receive Payments On the Bonds.

Brazilian law provides that whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. The Company and the Issuer cannot assure you that mechanisms for the transfer of *reais* and conversion into U.S. dollars will continue to be available at the time it is required to perform its obligations under the bonds or the indenture or that a more restrictive control policy, which could affect our ability to make payments under the bonds or the indenture in U.S. dollars, will not be instituted in the future. If such financial mechanisms are not available, the Issuer and/or the Guarantors may have to rely on a special authorization from the Central Bank to make payments under the bonds in U.S. dollars or, alternatively, be required to make such payments with funds that the Company or the

Guarantors hold outside Brazil. The Company cannot assure you that any such Central Bank approval would be obtained or that such approval would be obtained on a timely basis or that it will have such funds available.

Brazilian Bankruptcy Laws May Be Less Favorable to You Than Bankruptcy and Insolvency Laws in Other Jurisdictions.

If the Guarantors are unable to pay amounts due under our guarantee, then the Guarantors may become subject to bankruptcy or judicial reorganization proceedings in Brazil. The Brazilian bankruptcy law currently in effect may be significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. Bondholders may have limited rights at creditors' meetings in the context of a court reorganization proceeding. In a judicial reorganization provisions the foreign currency amounts will be converted into Brazilian *reais* for purposes of voting in a creditors' meeting (at the foreign exchange rate on the day before the meeting). In this case, the foreign currency creditors will vote the amount of their claims calculated in Brazilian *reais*. The debt itself will remain in the currency set out in the corresponding agreement. The reorganization plan which is subject to the approval of the creditors, may set forth that payments will be made in local currency. However, the plan may provide for a debt restructuring (e.g. haircut, grace period). If the plan is rejected by the creditors, the judicial reorganization must be converted into a bankruptcy. In addition, in the event of a bankruptcy, all of the Guarantors' debts that are denominated in foreign currency, including the bonds, will be converted into *reais* at the prevailing exchange rate on the date of declaration of the bankruptcy by the court. The Company cannot assure you that such rate of exchange will fully compensate for the amount invested in the bonds plus accrued interest.

Judgments of Brazilian Courts Enforcing the Company's and the Other Guarantors' Obligations Under the Bonds Would Be Payable Only in Reais.

If enforcement proceedings are filed in Brazil against the Company's or the Other Guarantors' obligations under the bonds, the Company and the other Guarantors would be required to discharge their obligations in *reais*. Any judgment obtained against the Company and the other Guarantors in Brazilian courts related to any payment obligations under the bonds will be expressed in *reais* equivalent to the U.S. dollar amount of such payment at the exchange rate published by the Central Bank on (1) the date of the payment, (2) the date on which such judgment is rendered, (3) the actual due date of the obligations, or (4) on the date in which the lawsuit is filed, in which case the amount would be subject to a monetary adjustment as determined by the relevant court. There can be no assurance that such rate of exchange will fully compensate for the amount invested in the bonds plus accrued interest. For further information, see "Enforcement of Civil Liabilities."

Payments on the Bonds and the Guarantees will be Effectively Junior to Any Secured Debt Obligations of the Guarantors and Structurally Junior to Debt Obligations of Any Non-Guarantor Subsidiaries.

The Issuer is a finance company dependent on cash flows of its affiliates. All of Gerdau S.A.'s principal Brazilian operating subsidiaries are also guaranteeing the bonds but some of its other subsidiaries, including Gerdau Ameristeel, are not guaranteeing the bonds. Claims of creditors of Gerdau S.A.'s non-guarantor subsidiaries and non-guarantor subsidiaries of the other Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over Gerdau S.A.'s and the other Guarantors' creditors claims. Accordingly, the bonds will be structurally subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Gerdau S.A. or the other Guarantors' non-guarantor subsidiaries. The indenture does not require Gerdau S.A.'s future subsidiaries to guarantee the bonds, and it does restrict a Guarantor from disposing of its assets to a third party or Gerdau S.A.'s subsidiary or a subsidiary of such Guarantor that is not guaranteeing the bonds.

The indenture governing the bonds will permit the incurrence of additional debt, some of which may be secured debt.

If the Issuer or any of the Guarantors become insolvent or are liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the lender will have priority over any claim for payment under the bonds to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the bonds could be satisfied. Further, if any assets did remain after payment of these lenders, the remaining assets might be insufficient to satisfy the claims of the

holders of the bonds and holders of other unsecured debt that is deemed the same class as the bonds, and potentially all other general creditors who would participate ratably with holders of the bonds.

As of June 30, 2017, the Company had R\$19.8 billion (US\$6.0 billion) of consolidated indebtedness (Short-term debt and Long-term debt). R\$1.2 billion (US\$370.8 million) of this total amount was structurally senior to the bonds being sold in this offering, including R\$119.2 million (US\$36.1 million) of the Company and the other Guarantors' secured debt and R\$15.5 billion (US\$4.7 billion) of the Company's and the Company's non-guarantor subsidiaries' debt.

During the period from June 30, 2017 through the date hereof the Company did not incur additional indebtedness.

The Company continuously monitors the market for its outstanding securities, and may from time to time engage in liability management transactions with its own obligations.

We Cannot Assure You that the Credit Ratings for the Bonds will not be Lowered, Suspended or Withdrawn by the Rating Agencies.

The credit ratings of the bonds may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the bonds, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the bonds.

The Obligations of the Guarantors under the Guarantees are Subordinated to Certain Statutory Liabilities.

Under Brazilian law, the obligations of the Guarantors under the bonds, the guarantees and the indenture are subordinated to certain statutory preferences. In the event of the bankruptcy of any of the Guarantors, according to the Brazilian bankruptcy law, such statutory preferences, such as certain claims for salaries and wages to a certain limit, social security and other taxes, court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the bonds.

USE OF PROCEEDS

The net proceeds from the sale of the bonds were made available to the Company and its subsidiaries, to be used by the Company and its subsidiaries to repay indebtedness (which may include indebtedness owed to one or more of the initial purchasers) and for general corporate purposes.

In connection with the offering of the bonds, the initial purchasers, acting as tender offer structuring advisors and purchasers (the “Tender Offerors”), have offered to purchase, for cash from each registered holder, upon the terms and conditions set forth in an Offer to Purchase dated October 4, 2017 (as amended or supplemented from time to time, the “Offer to Purchase”), up to a combined aggregate of \$500,000,000 of the outstanding (i) 7.000% Bonds due 2020 (the “2020 Bonds”) issued by Gerdau Holdings Inc., a Delaware corporation, and guaranteed by the Guarantors; (ii) 5.750% Bonds due 2021 (the “2021 Bonds”) issued by Gerdau Trade Inc., and guaranteed by the Guarantors; and (iii) 5.893% Bonds due 2024 (the “2024 Bonds”, and together with the 2020 Bonds and the 2021 Bonds, the “Tender Offer Bonds”) issued jointly and severally by Gerdau Holdings Inc. and GTL Trade Finance Inc., a British Virgin Islands business company, and guaranteed by the Guarantors (the “Tender Offer”).

The Tender Offer Bonds validly tendered at or prior to the early tender deadline (which was 5:00 p.m., New York City time, on October 18, 2017) and purchased by the Offerors in the Tender Offer were exchanged by the Tender Offerors with the Issuer for a decrease in the proceeds of the bonds offered hereby paid to the Issuer by the initial purchasers. The Tender Offer expired at 11:59 p.m. New York City time on November 1, 2017.

The following bonds were validly tendered and accepted:

Title of Security	CUSIP Number	Principal Amount Tendered	Principal Amount Accepted
5.75% Bonds due 2021 (Reg S)	G3925DAA8	U.S.\$505,639,000	U.S.\$505,639,000
5.75% Bonds due 2021 (144A)	3337373WAA8	U.S.\$46,014,000	U.S.\$46,014,000
7.000% Bonds due 2020 (Reg S)	US37405AA2	U.S.\$157,131,000	U.S.\$28,050,000
7.000% Bonds due 2020 (144A)	37373UAA2	U.S.\$78,767,000	U.S.\$7,249,000

EXCHANGE RATES

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the *real*/ U.S. dollar exchange rate to float freely, which resulted in increasing exchange rate volatility. Until early 2003, the *real* declined against the U.S. dollar. Between 2006 and 2008, the *real* strengthened against the U.S. dollar, except in the most severe periods of the global economic crisis. Given the recent turmoil in international markets and the current Brazilian macroeconomic outlook, the *real* depreciated against the U.S. dollar from mid-2011 to early 2016. In particular, during 2015, due to the poor economic conditions in Brazil, including as a result of political instability, the *real* has devalued at a rate that is much higher than in previous years. On September 24, 2015, the *real* fell to the lowest level since the introduction of the currency, at R\$4.195 per US\$1.00. Overall in 2015, the *real* depreciated 47%, reaching R\$3.901 per US\$1.00 on December 31, 2015. In early 2016, the *real* has been facing continuing fluctuations, primarily as a result of Brazil's political instability, and has appreciated against the U.S. dollar since March 2016. On June 30, 2017, the exchange rate was R\$3.308 per US\$1.00. There can be no assurance that the *real* will not depreciate or appreciate further against the U.S. dollar. The Central Bank has intervened in the foreign exchange market to control unstable movements of exchange rates. The *real* may fluctuate against the U.S. dollar substantially in the future.

The Central Bank has intervened occasionally to attempt to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market by re-implementing a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar in the future. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future.

The following table presents the exchange rates, according to the Brazilian Central Bank, for the periods indicated, expressed in *reais* per U.S. dollar:

Exchange rates from U.S. dollars to Brazilian reais				
Period	Period-end	Average ⁽¹⁾	High	Low
September-2017	3.1680	3.1348	3.1932	3.0852
August-2017	3.1471	3.1509	3.1976	3.1161
July-2017	3.1307	3.2061	3.3193	3.1256
June-2017	3.3082	3.2954	3.3362	3.2307
May-2017	3.2437	3.2095	3.3807	3.0924
April-2017	3.1984	3.1362	3.1984	3.0923
March-2017	3.1684	3.1279	3.1735	3.0765
February-2017	3.0993	3.1042	3.1479	3.0510
January-2017	3.1270	3.1966	3.2729	3.1270
2016	3.2591	3.4833	4.1558	3.1193
2015	3.9048	3.3399	4.1949	2.5754
2014	2.6562	2.3547	2.7403	2.1974
2013	2.3426	2.1601	2.4457	1.9528
2012	2.0435	1.9550	2.1121	1.7024

⁽¹⁾ Represents the average of the exchange rates on the closing of each day during the year or month, as applicable.

CAPITALIZATION OF GERDAU

The following table sets forth Gerdau's consolidated capitalization at June 30, 2017 on an historical basis and as adjusted to give effect to the receipt, and use, of the net proceeds from this offering of an aggregate principal amount of US\$650,000,000, or R\$2,056,535,000, of bonds. The net proceeds of US\$640,000,000 (R\$2,024,896,000) from the offering reflects the proceeds received after accounting for the issue price of 99.026% (reflecting a decrease of US\$6,331,000, or R\$20,030,651) and the deduction of the initial purchasers' discount, commissions and estimated expenses (totaling US\$3,669,000, or R\$11,608,349) (in each case translated using the commercial selling rate as reported by the Central Bank as of October 11, 2017 of R\$3.1639 per U.S. dollar).

This table should be read in conjunction with, and is qualified in its entirety by reference to, the Company's unaudited condensed consolidated interim financial information as of and for the six-month period ended June 30, 2017 included elsewhere in this offering memorandum.

	Actual	As adjusted for this offering
	(in thousands of Brazilian reais- R\$)	
Debt:		
Current debt:		
Short-term debt (including "Current Portion of Long-Term Debt")	4,186,259	4,186,259
Debentures	-	-
Non-current debt:		
Long-term debt (excluding "Current Portion of Long-Term Debt") ⁽¹⁾	15,646,225	13,621,329
Bonds offered hereby ⁽²⁾	-	2,024,896
Debentures	131,797	131,797
Equity:		
Capital	19,249,181	19,249,181
Treasury stocks	(77,550)	(77,550)
Capital reserves	11,597	11,597
Retained earnings	4,650,781	4,650,781
Operations with non-controlling interests	(2,873,335)	(2,873,335)
Other reserves	4,122,574	4,122,574
Equity attributable to the equity holders of the parent	25,083,248	25,083,248
Non-controlling interests	262,529	262,529
Equity	25,345,777	25,345,777
Total capitalization ⁽³⁾	45,310,058	45,310,058

(1) The decrease in Long-term debt of R\$2,024,896 shown in the column "As adjusted for this offering" assumes the entire net proceeds of this offering will be used to repay long-term debt pursuant to the Tender Offer described in "Use of Proceeds".

(2) Refers to the US\$650,000,000 (R\$2,056,535,000) aggregate principal amount of bonds offered hereby, as adjusted to reflect the net proceeds of US\$640,000,000 (R\$2,024,896,000) based on the issue price of 99.026% (reflecting a decrease of US\$6,331,000, or R\$20,030,651) and after deducting the initial purchasers' discount, commissions and estimated expenses totaling US\$3,669,000, or R\$11,608,349 (translated using the commercial selling rate as reported by the Central Bank as of October 11, 2017 of R\$3.1639 per U.S. dollar).

(3) Defined as current debt and non-current debt (including the bonds offered hereby only for the column "As adjusted for this bond offering") and total equity.

As of June 30, 2017, the Issuer had R\$6.17 billion (US\$1.87 billion) of indebtedness (Current debt and Non-current debt).

RECENT BUSINESS DEVELOPMENTS AND FINANCIAL RESULTS

Overview

The steel industry is experiencing a positive momentum with closing steel capacity in China and with stronger world economic growth. The world steel capacity utilization level improved in 2017 with an average of 72% and international steel prices rebounded. According to S&P Global Platts, an independent provider of information, benchmark prices and analytics for the energy and commodities markets, the average price per tonne of the China Rebar export was around US\$317/t during the nine months of 2016 and US\$459/t in the same period of 2017, an increase of 45%.

According to Worldsteel, China apparent steel use showed upside surprise in the first seven months of 2017 with an increase of 10.9%. Growth in the emerging and developing world is getting stronger with Russia and Brazil coming out of recession.

After two years of severe recession, the Brazilian economy started to show some signs of stabilization. Auto production is expected to rebound in 2017 with an increase of 25.2%, according to ANFAVEA.

The US economy is expected to accelerate in 2017 due to stronger economic fundamentals and increased business and consumer confidence. According to the International Monetary Fund (IMF), real GDP is projected to grow by 2.1% in 2017. Improvements in mining and manufacturing sectors are expected to continue. Construction activity remains positive. Investment in crude oil and natural gas exploration and production show signs of recovery in the first half of 2016 and further recovery expected.

Business Cyclicalities and Seasonality

The steel industry is highly cyclical. Consequently, the Company is exposed to fluctuations in the demand for steel goods that in turn cause fluctuations in the prices of these goods. Furthermore, since the production capacity of Brazil's steel industry exceeds its demand, it is dependent on export markets. The demand for steel goods and consequently the financial conditions and results of operations of steel producers, including the Company, are generally affected by fluctuations in the world economy and in particular the performance of the manufacturing, construction and automotive industries.

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

Changes to the Gerdau Management

On August 24, 2017, the Company announced that as of January 1, 2018, the members of the Gerdau Johannpeter family that currently serve on the Executive Board – André Bier Gerdau Johannpeter, Chief Executive Officer (CEO), and Claudio Johannpeter and Guilherme Chagas Gerdau Johannpeter, both Executive Vice-Presidents – will serve exclusively on the Boards of Directors of which they are already members.

To lead this new executive stage, starting January 2018, the Board of Directors has chosen Gustavo Werneck, currently Executive Officer of the Brazil Business Division, as the new CEO of Gerdau S.A. Gustavo Werneck, who is 44 years old, has been in the Company for 13 years. He has a bachelor's degree in Mechanical Engineering from the Federal University of Minas Gerais and MBAs from INSPER and Fundação Getúlio Vargas. He also completed specialization courses at INSEAD, Harvard Business School, Kellogg School of Management and the London Business School. Prior to serving as Executive Officer of the Brazil Business Division, he served as Corporate Director of Information Technology and as Industrial Director of Gerdau in India, among other positions.

Business Operation Developments

On January 5, 2017, the Company made a payment of capital to Gerdau Summit Aços Fundidos e Forjados S.A. through the contribution of some of its assets and liabilities, which were evaluated by a

specialized independent valuation company. On January 31, 2017, the extraordinary general meeting of Gerdau Summit Aços Fundidos e Forjados S.A. was held, where Sumitomo Corporation and The Japan Steel Works, Ltd. acquired capital stock in this company, and a joint control agreement was signed among these parties. As a result, Gerdau Summit Aços Fundidos e Forjados S.A. will be treated as a jointly controlled entity in the Company's financial statements, with a 58.73% interest, and will not have a significant impact on the Company's total assets.

On June 30, 2017, the Company completed the creation of a joint venture, based on the sale of a 50% interest in Diaco S.A., in Colombia, to Putney Capital Management, which is already a partner in the Company's operations in the Dominican Republic. The new company's assets are comprised of Gerdau's long-steel industrial units in Colombia, with an annual installed steel capacity of 674 thousand tons. The transaction attributed an economic value to the jointly controlled entity of R\$546 million (US\$165 million). As part of the transaction, the Company received US\$44.7 million in cash (R\$145.1 million) and, due to the fair value adjustment of the remaining interest in accordance with IFRS, recognized an expense of R\$72.5 million in "Results in operations with subsidiaries" in its consolidated statements of income for the three-month and six-month periods ended June 30, 2017. The goal of this transaction is to further optimize the Company's assets with a focus on profitability and deleveraging, and it allowed the Company to reduce its indebtedness and working capital levels by R\$226 million and R\$175 million, respectively.

Recent Production and Shipments Trends (Six-Month Period Ended June 30, 2017 Compared to the Six-Month Period Ended June 30, 2016)

The following table sets forth Gerdau's consolidated crude and rolled steel production and shipments, presented in thousand tonnes and prepared in accordance with IFRS:

Gerdau S.A. Consolidated	Six-Month period ended June 30, 2017	Six-Month period ended June 30, 2016	Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
(in thousand tonnes)			
Crude steel production.....	8,109	8,458	(4.3%)
Rolled steel production.....	7,130	7,354	(3.1%)
Shipments.....	7,298	8,091	(10.9%)

Results of Operations of the Six-Month Period Ended June 30, 2017 Compared to the Six-Month Period Ended June 30, 2016

The summary financial data for the six-month periods ended June 30, 2017 and 2016 have been derived from the Company's unaudited consolidated interim financial information which are included in this offering memorandum.

The following table sets forth Gerdau's summary unaudited interim financial information, presented in Brazilian *reais* and prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, as issued by the IASB:

	In thousands of Brazilian <i>reais</i> (R\$) for the Six-Month period ended	
	June 30, 2017	June 30, 2016
NET SALES	17,624,517	20,333,289
Cost of sales.....	(16,033,919)	(18,437,307)
GROSS PROFIT	1,590,598	1,895,982
Selling expenses.....	(271,743)	(389,941)
General and administrative expenses.....	(588,186)	(831,519)
Other operating income.....	139,934	102,057
Other operating expenses.....	(37,702)	(33,928)
Results in operations with subsidiaries.....	(72,478)	(105,048)
Reversal of contingent liabilities, net.....	929,711	-
Equity in earnings (losses) of unconsolidated companies.....	(3,239)	(7,690)
NET INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	1,686,895	629,913
Financial income.....	125,914	120,812

Financial expenses	(917,017)	(1,009,302)
Exchange variations, net	(21,351)	942,616
Reversal of monetary update of contingent liabilities, net	369,819	-
Gain and losses on financial instruments, net	(8,606)	(38,220)
NET INCOME (LOSS) BEFORE TAXES	1,235,654	645,819
Current	(145,927)	(80,454)
Deferred	(189,666)	(471,970)
Income and social contribution taxes	(335,593)	(552,424)
NET INCOME (LOSS)	900,061	93,395
ATTRIBUTED TO:		
Owners of the parent	890,364	81,773
Non-controlling interests	9,697	11,622
	900,061	93,395

The following analysis refers to the consolidated results of Gerdau.

Net Sales

The following table sets forth the Company's net sales by Business Division, presented in Brazilian *reais* and prepared in accordance with the IFRS:

Net Sales (R\$ million)	Six-Month period ended June 30, 2017	Six-Month period ended June 30, 2016	Variation Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
Brazil	5,844	5,741	1.8%
Domestic Market	4,504	4,281	5.2%
Exports	1,340	1,460	(8.2%)
North America	7,527	8,588	(12.4%)
South America	1,971	2,446	(19.4%)
Specialty Steel	2,972	4,133	(28.1%)
Intercompany Eliminations	(690)	(574)	20.2%
Total	17,625	20,334	(13.3%)

Note: the information above does not include data from associate and jointly controlled entities.

Net Sales per tonne by Business Divisions (R\$/tonne)	Six-Month period ended June 30, 2017	Six-Month period ended June 30, 2016	Variation Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
Brazil	2,199	1,882	16.8%
North America	2,411	2,713	(11.1%)
South America	2,119	2,358	(10.1%)
Specialty Steel	3,119	3,371	(7.5%)
Total	2,415	2,513	(3.9%)

Note: the information above does not include data from associate and jointly controlled entities.

In the first half of 2017, consolidated net sales decreased 13.3% compared with the same period of 2016, mainly due to the decline in shipments in all Business Divisions.

In the Brazil Business Division, the 1.8% increase in net sales in the first half of 2017 compared to the same period of 2016 was mainly due to higher net sales per tonne despite lower shipments in both the domestic

and export markets (from 3,050 thousand tonnes in the first half of 2016 to 2,658 thousand tonnes in the same period of 2017). Domestic shipments decreased in the first half of 2017 compared to the same period of 2016, mainly due to the lower shipments of long steel products, reflecting the slowdown in the construction industry in Brazil due to the economic recession. Meanwhile, export shipments declined because of lower opportunities in the international market.

In the North America Business Division, net sales in the first half of 2017 decreased 12.4% compared to the same period of 2016 due to a reduction in net sales per tonne of 11.1% which is mainly explained by the effects from exchange variation in the comparison period (appreciation in the average price of the Brazilian *real* against the U.S. dollar of 14.1% in first half of 2017 compared to the same period of 2016).

In the South America Business Division, net sales in the first half of 2017 decreased 19.4% compared to the same period of 2016, mainly due to lower shipments (from 1,038 thousand tonnes in the first half of 2016 to 930 thousand tonnes in the same period of 2017) in the countries that we operate, which were affected by the lower economic growth and by the effects from exchange variation in the comparison period.

In the Special Steel Business Division, net sales decreased 28.1% in the first half of 2017 compared to the same period of 2016, due to lower shipments (from 1,226 thousand tonnes in first half of 2016 to 953 thousand tonnes in the same period of 2017) mainly because of the divestment of the units in Spain, as well as the effects from exchange variation in the comparison period.

Cost of Sales and Gross Profit

The following table sets forth the Company's consolidated net sales, cost of sales and gross profit by Business Division, presented in Brazilian *reais*:

		Six-Month period ended June 30,		
		2017	2016	Variation Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
Net sales, Cost of Sales and Gross Profit(*)				
Brazil	Net sales (R\$ million)	5,844	5,741	1.8%
	Cost of Sales (R\$ million)	(5,168)	(5,175)	(0.1%)
	Gross Profit (R\$ million)	676	566	19.4%
	<i>Gross margin (%)</i>	<i>11.6%</i>	<i>9.9%</i>	
North America	Net sales (R\$ million)	7,527	8,588	(12.4%)
	Cost of Sales (R\$ million)	(7,226)	(7,938)	(9.0%)
	Gross Profit (R\$ million)	301	650	(53.7%)
	<i>Gross margin (%)</i>	<i>4.0%</i>	<i>7.6%</i>	
South America	Net sales (R\$ million)	1,971	2,446	(19.4%)
	Cost of Sales (R\$ million)	(1,751)	(2,057)	(14.9%)
	Gross Profit (R\$ million)	220	389	(43.4%)
	<i>Gross margin (%)</i>	<i>11.2%</i>	<i>15.9%</i>	
Special Steel	Net sales (R\$ million)	2,972	4,133	(28.1%)
	Cost of Sales (R\$ million)	(2,579)	(3,837)	(32.8%)
	Gross Profit (R\$ million)	393	296	32.8%
	<i>Gross margin (%)</i>	<i>13.2%</i>	<i>7.2%</i>	
Intercompany Eliminations	Net sales (R\$ million)	(691)	(574)	
	Cost of Sales (R\$ million)	691	570	
	Gross Profit (R\$ million)	(0)	(4)	
Total.....	Net sales (R\$ million)	17,625	20,334	(13.3%)
	Cost of Sales (R\$ million)	(16,034)	(18,437)	(13.0%)
	Gross Profit (R\$ million)	1,591	1,897	(16.1%)
	<i>Gross margin (%)</i>	<i>9.0%</i>	<i>9.3%</i>	

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

In the first half of 2017, cost of sales decreased 13.0% compared to the same period of 2016, mainly because of sales volume reduction of 9.8% due to shipment decreases in all Business Divisions. Gross margin decreased slightly from 9.3% in the first half of 2016 to 9.0% in the same period of 2017, due to poor performance of North America and South America, partially offset by positive results in the Brazil and Special Steel Business Division.

In the Brazil Business Division, cost of sales in the first half of 2017 remained stable in relation to the same period of 2016 despite the lower shipments, given the higher costs of raw materials. The increase in net sales and the stability in the cost of sales resulted in an improved gross margin, from 9.9% in the first half of 2016 to 11.6% in the same period of 2017.

In the North America Business Division, cost of sales in the first half of 2017 decreased 9.0% compared to the same period of 2016 which is mainly explained by the effects from exchange variation in the comparison period due to an appreciation in the average price of the Brazilian *real* against the U.S. dollar of 14.1% in first half of 2017 compared to the same period of 2016. The reduction of 12.4% in net sales was higher than the reduction of 9.0% in cost of sales-, resulting in a decrease of gross margin, from 7.6% in the first half of 2016 to 4.0% in the same period of 2017.

In the South America Business Division, cost of sales decreased 14.9% in the first half of 2017 compared to the same period of 2016, due to the shipments reduction of 10.4%, as well as the exchange rate effect. Gross margin decreased from 15.9% in the first half of 2016 to 11.2% in the same period of 2016, due to stronger reduction in net sales of 19.4% compared to the decrease in cost of sales of 14.9%.

In the Special Steel Business Division, the 32.8% decrease in cost of sales was mainly due to the sale of the Spain unit. The Spain unit historically had the lowest profitability of this Business Division, as a result, gross margin improved from 7.2% in the first half of 2016 to 13.2% in the same period of 2017. In addition, the performance in Brazil and the United States improved.

Selling, General and Administrative Expenses

			Variation Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
Operating Expenses(*) (R\$ million)	Six-Month period ended June 30, 2017	Six-Month period ended June 30, 2016	
Selling expenses	272	390	(30.3%)
General and administrative expenses.....	588	832	(29.3%)
Total	860	1,222	(29.6%)
Net sales	17,625	20,334	(13.3%)
% of net sales	4.9%	6.0%	

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

The 30.3% reduction in consolidated selling expenses was due to a decrease in shipments in the first half of 2017 of 9.8%. Consolidated general and administrative expenses decreased 29.3% from the first half of 2017 compared to the same period of 2016, which demonstrates the Company's efforts to streamline these expenses. In the first half of 2017, selling, general and administrative expenses as a ratio of net sales was 4.9%, which was an important decreased as compared to the same period of 2016.

Income Before Financial Income (Expenses) and Taxes

Income before financial income (expenses) and taxes was R\$630 million in the first half of 2016 compared to R\$1,687 million in the same period of 2017. The decrease of gross profit was more than offset by the reduction of selling, general and administrative expenses.

The main reason for the strong improvement in the Operating Income before Financial Result and Taxes in the first half of 2017 was explained by the Company's and its subsidiaries' reversal of the provision for contingencies related to the exclusion of the ICMS tax from the tax base for contributions to PIS and COFINS accrued from 2009 to 2016. This reversal was based on the conclusion of the trial by the Federal Supreme Court (STF) sitting en banc, which declared unconstitutional the inclusion of the ICMS tax in said tax base, and is supported by the position of the Company's legal counsel that the probability of loss in the pending lawsuits

became remote after the decision by the STF. As the net result of this reversal and the recognition of other provisions for the three-month period ended March 31, 2017, the Company recorded the amounts of R\$930 million under “Reversal of contingent liabilities, net” (operating result) and of R\$370 million under “Reversal of contingent liability restatement, net” (financial result) on the consolidated income statement. Income tax and social contribution on this reversal and the other provisions amounted to R\$442 million, with the net effect excluding these amounts, in the amount of R\$858 million, being considered a non-recurring event in the Company’s consolidated results. Gerdau emphasizes, however, that there is a possibility that the STF may determine that the application of the modulation mechanism necessarily applies to this decision, which is used to determine the effects in time of a decision to declare unconstitutionality. If the STF applies the modulation mechanism, limiting the effects of the decision in time, it may be necessary to reassess the risk of loss associated with said lawsuits, which consequently may require the accrual of new provisions related to this matter in the future.

Financial Income, Financial Expenses, Exchange Variations, Gains and Losses in Derivatives

The following table sets forth the Company’s consolidated financial results, presented in Brazilian *reais*:

	Six-Month period ended June 30, 2017	Six-Month period ended June 30, 2016	Variation Six-Month period ended June 30, 2017/ Six-Month period ended June 30, 2016
Financial Results (*) (R\$ million)			
Financial income	126	121	4.1%
Financial expenses.....	(917)	(1,009)	(9.1%)
Exchange variation, net	(21)	943	
Reversal of monetary update of contingent liabilities, net	370	-	
Gains and Losses on financial instruments, net	(9)	(39)	(76.9%)
Total.....	(451)	16	

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

The net financial result went from an income of R\$16 million in the first half of 2016 to an expense of R\$451 million in the same period of 2017. The increase in expenses mainly reflects the exchange variation on liabilities contracted in U.S. dollars due to an appreciation of the Brazilian *real* against the U.S. dollar of 17.8% in the first half of 2016, compared to a depreciation of 1.5% in the same period of 2017. Specifically in the first half of 2017, the financial result benefited from the reversal of the indexation of contingent liabilities, as previously described.

In accordance with IFRS, the Company designated the bulk of its debt in foreign currency as a hedge for a portion of the investments in subsidiaries located abroad. As a result, only the effect from exchange variation on the portion of debt not linked to investment hedge is recognized in the financial result, with this effect off-set by the line “Income and Social Contribution taxes on net investment hedge.”

Provision for Income Taxes

Income and social contribution taxes was an expense of R\$336 million in the first half of 2017, compared to an expense of R\$553 million in the same period of 2016. This variation was due to the deferred income tax and social contribution that resulted in income on net investment hedge of R\$35 million in the first half of 2017 and expense on net investment hedge of R\$726 million in the same period of 2016. Specifically in the first half of 2017, the income tax had an impact on expense because of the reversal of the indexation of contingent liabilities, as previously described.

Net Income (Loss)

The following table sets forth the Company’s Net income by Business Division, presented in Brazilian *reais*:

Variation

Net Income	Six-Month period ended June 30,	Six-Month period ended June 30,	Six-Month period ended June 30, 2017/ Six-Month period ended
(R\$ million)	2017	2016	June 30, 2016
Brazil.....	78	(85)	
North America.....	38	192	(80.2%)
South America.....	61	170	(64.1%)
Specialty Steel.....	175	28	525.0%
Eliminations and Adjustments.....	548	(212)	
Net Income	900	93	867.7%

Our consolidated net income went from R\$93 million in the first half of 2016 to R\$900 million in the same period of 2017. This variation was mainly due to the net effect of “Reversal of contingent liabilities” of R\$858 million, described previously.

In the Brazil Business Division, the net loss was R\$85 million in the first half of 2016, compared to a gain of R\$78 million in the same period of 2017. This variation was mainly due to an increase in Gross profit and a reduction in Selling, General and Administrative expenses.

The North America Business Division posted a net income of R\$192 million in the first half of 2016, compared to a net income of R\$38 million in the same period of 2017. This variation was mainly due to a decrease in operational result, as well as the negative impact of the exchange rate in the period.

In the first half of 2016, the South America Business Division posted net income of R\$170 million, compared to a net income of R\$61 million in the same period of 2017. This variation was mainly due to lower operational result.

In the first half of 2016, the Special Steel Business Division posted net income of R\$28 million, compared to a net income of R\$175 million in the same period of 2017. This variation was mainly due to a better performance of the United States and Brazil units and also the divestment of our Spain units that generated losses in the first half of 2016.

Liquidity and Capital Resources

The following table sets forth in part the balance sheet and cash flow information of the Company:

	As of and for the Six-Month period ended June 30,	
	2017	2016
	(in thousands of Brazilian reais - R\$)	
Balance sheet selected information		
Cash and cash equivalents.....	4,305,434	3,809,424
Short-term investments ⁽¹⁾	1,124,769	1,067,515
Current assets	17,895,994	17,297,171
Current liabilities	8,608,157	6,079,653
Net working capital ⁽²⁾	9,287,837	11,217,518
Property, plant and equipment, net.....	18,502,051	20,164,831
Net assets ⁽³⁾	25,345,777	27,760,998
Total assets	54,175,125	58,233,705
Short-term debt (including “Current Portion of Long-Term Debt”).....	4,186,259	1,959,362
Long-term debt, less current portion	15,646,225	18,496,870
Debentures - short term.....	—	—
Debentures - long term	131,797	217,817
Equity	25,345,777	27,760,998
Capital stock.....	19,249,181	19,249,181

(1) Include 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.

Selected Financial Information

The following table sets forth the Company's selected financial information, presented in Brazilian *reais*:

	For the Six-Month period ended June 30,	
	2017	2016
	(in thousands of Brazilian reais - R\$, unless otherwise stated)	
Cash Flow Data:		
Cash flows from operating activities	16,784	1,472,832
Cash flows (used in) investing activities	(211,615)	(850,257)
Cash flows (used in) financing activities.....	(566,976)	(1,759,217)
Operating Data (in thousand tons):		
Consolidated shipments	7,298	8,091
Total production of long rolled steel ⁽¹⁾	6,704	7,346
Total production of flat rolled steel ⁽¹⁾	594	745
Other Information:		
Additions to property, plant and equipment ⁽⁷⁾	431,850	811,496
Depreciation and amortization	1,054,233	1,298,492
EBITDA:		
Net Income for the period	900,061	93,395
(+) Financial results (financial expense, financial income, exchange variations, net and gains and losses on derivatives, net)	451,241	(15,906)
(+) Income and social contribution taxes	335,593	552,424
(+) Depreciation and amortization	1,054,233	1,298,492
(=) EBITDA	2,741,128	1,928,405
Adjusted EBITDA:		
(+/-) Results in operations with subsidiaries.....	72,478	(105,048)
(-) Reversal of contingent liabilities	(929,711)	-
(-) Equity in earnings of unconsolidated companies	3,239	7,690
(+) Proportional EBITDA of associate and jointly-controlled entity.....	86,661	90,320
(=) Adjusted EBITDA ⁽²⁾	1,973,795	2,131,463
Total Debt ⁽⁴⁾	19,964,281	20,674,049
Interest Amounts (12-month period ended on) ⁽⁸⁾	2,015,744	2,248,496
Ratios:		
Total Debt ⁽⁴⁾ /Adjusted EBITDA ⁽²⁾⁽⁵⁾	5.13	4.77
Adjusted EBITDA ⁽²⁾ (12-month period ended on)/Interest Amount (12-month period ended on) ⁽⁶⁾⁽⁸⁾	1.93	1.93
Current liquidity ratio ⁽³⁾	2.08	2.85

(1) The rolling process relies on raw materials produced at the melt shops such as slabs, blooms and billets. Part of these products is sold directly to external customers and the remainder used in the rolling process.

(2) Adjusted EBITDA is equal to net income, plus financial expenses, financial income, foreign exchange gains and losses (net) and gains and losses on derivatives (net), plus provision for income taxes, plus depreciation and amortization, plus impairment of assets, plus restructuring costs. Adjusted EBITDA is not a measure of financial performance calculated in accordance with IFRS and management believes adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS, as a performance indicator or as an alternative to cash flows from operations as a measure of liquidity and cash flows. Adjusted EBITDA does not have standardized meaning and our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. However, because Adjusted EBITDA does not account for certain costs intrinsic to our business, which could, in turn, materially affect our profits, such as financial expenses, taxes, depreciation, capital expenditures and other related charges, Adjusted EBITDA presents limitations that affect its use as a measure of our profitability. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results, and it is calculated in accordance with covenants of our most significant outstanding indebtedness. Gerdau believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations. Net income is the most directly comparable GAAP measure. For the columns referred to as "For the six months ended on June 30", the amount presented for 2017 presents the 12-month period ended on June 30, 2017 calculated by subtracting the amounts presented in the Company's financial statements for the six-month period ended June 30, 2016 from the amounts presented in the Company's financial statements for the year ended December 31, 2016, in order to get the amounts for the second half of 2016, and adding the amounts presented in the Company's financial statements for the six-month period ended June 30, 2017, in order to get the amounts of the first half of 2017. The amounts presented for 2016 presents the 12-month period ended on June 30, 2016 calculated by subtracting the amounts presented in the Company's financial statements for the six-month period ended June 30, 2015 from the amounts presented in the Company's financial statements for the year ended December 31, 2015, in order to get the amounts for the second half of 2015, and adding the amounts presented in the Company's financial statements for the six-month period ended June 30, 2016, in order to get the amounts of the first half of 2016.

(3) Current liquidity ratio consists of current assets divided by current liabilities derived from the Company's consolidated financial statements prepared in accordance with IFRS.

(4) Includes short-term and long-term debt and debentures.

(5) The ratio of Total Debt to Adjusted EBITDA is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using Total Debt as of June 30, 2017 and 2016, and Adjusted EBITDA for the twelve-month periods ended as of June 30, 2017 and June 30, 2016.

- (6) The ratio of Adjusted EBITDA to Interest Expense is calculated in accordance with covenants of our most significant outstanding indebtedness containing financial covenants, which calculation may not be comparable to similarly titled measures of other companies, using the Adjusted EBITDA for the twelve-month periods ended as of June 30, 2017 and June 30, 2016, and Interest Expense (including financial expenses; gains and losses on derivatives, net; and capitalized interest and financial charges) for the twelve-month periods ended as of June 30, 2017 and June 30, 2016.
- (7) Capital expenditures are presented in "Additions to property, plant and equipment" under cash flows from investing activities.
- (8) Includes Financial Expenses, Gain and losses on financial instruments (net) and Capitalized borrowing costs. For the columns referred to as "For the six months ended on June 30", the amount presented for 2017 presents the 12-month period ended on June 30, 2017 calculated by subtracting the amounts presented in the Company's financial statements for the six-month period ended June 30, 2016 from the amounts presented in the Company's financial statements for the year ended December 31, 2016, in order to get the amounts for the second half of 2016, and adding the amounts presented in the Company's financial statements for the six-month period ended June 30, 2017, in order to get the amounts of the first half of 2017. The amounts presented for 2016 presents the 12-month period ended on June 30, 2016 calculated by subtracting the amounts presented in the Company's financial statements for the six-month period ended June 30, 2015 from the amounts presented in the Company's financial statements for the year ended December 31, 2015, in order to get the amounts for the second half of 2015, and adding the amounts presented in the Company's financial statements for the six-month period ended June 30, 2016, in order to get the amounts of the first half of 2016.

Gerda's main source of liquidity is the cash generated by its operating activities.

Cash Flows

Net cash from operating activities amounted to R\$16.8 million and R\$1,472.8 million in the first half of 2017 and 2016, respectively. In the first half of 2017, net cash from operating activities declined 98.9% mainly due to the consumption of working capital of R\$786.5 million compared to working capital (Trade accounts receivable, net and Inventories less Trade accounts payable) release of R\$190.6 million in the same period of 2016, which resulted from an inventories increase in the period.

Net cash used in investing activities decreased 75.1%, from R\$850.3 million in first half of 2016 to R\$211.6 million in the same period of 2017, mainly due to lower capital expenditure (addition to fixed assets) and to the proceeds from the divestment of assets in Colombia and the United States.

Net cash used in financing activities went from R\$1,759.2 million in the first half of 2016 to R\$567.0 million in the same period of 2017. This variation was mainly due to the net amount of contributions and amortizations of loans and financing, which amounted to R\$1,765.5 million and R\$568.2 million in amortizations, respectively in the first half of 2016 and the same period in 2017. The amortizations made in both periods refer mainly to settlements of working capital lines and of other long-term financings.

Indebtedness

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

The following table profiles the Company's debt at December 31, 2016, 2015 and 2014, and June 30, 2017:

	As of			
	December 31, 2016	December 31, 2015	December 31, 2014	June 30, 2017
	(in thousands of Brazilian reais)			
SHORT TERM:	4,458,220	2,387,237	2,037,869	4,186,259
Total short-term debt	4,458,220	2,387,237	2,037,869	4,186,259
Debt denominated in Brazilian reais	608,173	907,360	78,815	540,010
Debt denominated in foreign currency	3,850,047	1,479,877	1,959,054	3,646,249
Debentures	-	-	-	-
LONG TERM:	16,125,013	24,073,620	17,483,616	15,778,022
Total long-term debt	15,959,590	23,826,258	17,148,580	15,646,225
Debt denominated in Brazilian reais	2,620,586	2,317,203	3,402,545	2,445,718
Debt denominated in foreign currency	13,339,004	21,509,055	13,746,035	13,200,507
Debentures	165,423	246,862	335,036	131,797
TOTAL DEBT:	20,583,233	26,460,857	19,521,485	19,964,281
Short-term and long-term investments, restricted cash, cash and cash equivalents	6,087,794	6,918,840	5,848,805	5,430,203

NET DEBT⁽¹⁾	14,495,439	19,542,017	13,672,680	14,534,078
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(1) Net Debt is a non-GAAP metric and its calculation is made by subtracting short-term investments, restricted cash, cash and cash equivalents from total debt.

As of June 30, 2017, the Issuer had outstanding indebtedness in the amount of R\$6.2 billion (US\$1.9 billion). As of June 30, 2017, the Company had R\$19.8 billion (US\$6.0 billion) of consolidated indebtedness. R\$1.2 billion (US\$370.8 million) of this total amount was structurally senior to the bonds being sold in this offering, including R\$119.2 million (US\$36.1 million) of the Company and the other Guarantors' secured debt and R\$15.5 billion (US\$4.7 billion) of the Company's and the Company's non-guarantor subsidiaries' debt.

On June 30, 2017, the maturity profile of the Company's long and short-term debt, including local debentures, was as follows:

Short-term	R\$ million
3rd quarter 2017.....	639,143
4th quarter 2017.....	2,992,310
1st quarter 2018.....	379,866
2nd quarter 2018.....	174,941
Total	4,186,259
Long-term	R\$ million
2018.....	1,188,730
2019.....	892,431
2020.....	3,309,803
2021.....	3,597,041
2022 and after.....	6,790,017
Total	15,778,022

During the period from June 30, 2017 through the date hereof the Company did not incur additional indebtedness.

Financial Agreements

For a more detailed description of the Company's financial agreements see the description of financial agreements contained in the Company's 2016 Annual Report, which is incorporated by reference herein.

UKEF – UK Export Finance

In June 2011, the Company's subsidiary Gerdau Açominas S.A. entered into a financing agreement covered by ECGD (Export Credits Guarantee Department), the English Export Credit Agency (ECA), with the banks Deutsche Bank AG, London Branch, HSBC Limited, Tokyo Branch, Citibank Europe plc and BNP Paribas. On June 30, 2017, the outstanding balance of this facility was US\$138.4 million (R\$457.7 million).

Bonds

The Company, through its subsidiaries GTL Trade Finance Inc., Gerdau Holdings Inc. and Gerdau Trade Inc., issued in 2007, 2009, 2010, 2013 and 2014, bonds each with maturity of 10 and 30 years (collectively "Ten/Thirty Years Bond"). The following companies guaranteed these transactions: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. On June 30, 2017, the outstanding balance of these bonds was R\$14.3 billion.

Tokyo Loan Agreement

In June 2013, the Company's subsidiary Gerdau Steel India, entered into a loan agreement in the amount of US\$40 million, denominated in INR, with The Bank of Tokyo-Mitsubishi, with a term of five years.

The outstanding amount of this facility was US\$40 million as of June 30, 2017 (R\$132.3 million) and the Company guarantees this transaction.

NCE Banco do Brasil (R\$660 million)

In September 2013, the Company's subsidiary Gerdau Açominas issued an Export Credit Note worth R\$660 million, maturing on August 18, 2020, with Banco do Brasil S.A. acting as creditor. On June 30, 2017, the outstanding balance of this facility was R\$585 million.

HSBC Loan Agreement

In December 2013, the Company's subsidiary Gerdau Steel India entered into a loan agreement in the amount of US\$25 million with HSBC, with a term of five years. The outstanding amount of this facility was US\$25 million as of June 30, 2017 (R\$82.7 million) and the Company guarantees this transaction.

EXIM PSI — BNDES

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

Sumitomo — Credit Agreement

In March 2014, the Company's associate company Gerdau Corsa entered into a loan agreement in the amount of US\$75 million, denominated in Mexican Pesos, with Sumitomo Mitsui Banking Corporation, with a term of five years. The outstanding amount of this facility was US\$55.4 million as of June 30, 2017 (R\$183.1 million) and the Company guarantees this transaction.

NCE Banco do Brasil (R\$500 million)

In March 2014, the Company's subsidiaries Gerdau Açominas and Gerdau Aços Especiais issued an Export Credit Note worth R\$500 million, maturing on February 16, 2020, with Banco do Brasil S.A. acting as the creditor. On June 30, 2017 the outstanding balance of this facility was R\$400 million.

Citi Loan Agreement

In August 2015, the Company's subsidiary Diaco entered into a loan agreement in the amount of US\$40 million with Citibank and a term of three years. The outstanding amount of this facility was US\$38 million as of June 30, 2017 (R\$125.7 million) and the Company guarantees this transaction.

4131 Citi

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

BBVA — Credit Agreement

In December 2015, the Company's associate company Gerdau Corsa entered into a loan agreement in the amount of US\$150 million, denominated in Mexican Pesos, with BBVA with a term of five years. The outstanding amount of this facility was US\$139.7 million as of June 30, 2017. (R\$462.1 million) and the Company guarantees this transaction.

Syndicated Loan

In December 2016 the associate company Gerdau Corsa entered into a syndicated senior unsecured term loan in the amount of US\$330 million, denominated in Mexican pesos. As of June 30, 2017 the outstanding amount was US\$376.2 million (R\$1.2 billion) and the Company guarantees this transaction.

Legal Proceedings

For a more detailed description of the Company's legal proceedings, see the description of legal proceedings contained in the Company's 2016 Annual Report, which is incorporated by reference herein, and as updated in the notes to the 2017 Interim Financial Information, included elsewhere in this offering memorandum.

Capital Expenditures Program

In the first half of 2017, capital expenditures on fixed assets was R\$431.8 million. Of this total, 40.2% was allocated to the operations in Brazil and the remaining 59.8% was allocated to the other operations among the countries in which Gerdau operates.

Brazil Business Division — a total of R\$173.4 million was invested in this operation on capital expenditures. This amount was mainly spent on maintenance of the production units.

North America Business Division — this business division spent R\$137.0 million on capital expenditures on fixed assets distributed through the units which compose this business division. This amount was mainly spent on the maintenance of the production units.

South America Business Division — South American units spent R\$74.1 million on capital expenditures on fixed assets distributed among countries in which the units from this business division are located. Part of this investment was used to build a new melt shop in Argentina, which have a capacity of 650,000 tonnes of steel per year and started production on July of 2017.

Special Steel Business Division — the special steel units spent R\$47.3 million on capital expenditures on fixed assets distributed through units which compose this business division. This amount was mainly spent on the maintenance of the production units.

DESCRIPTION OF THE BONDS

The Issuer has issued the bonds pursuant to an indenture, dated as of October 24, 2017, among the Issuer, the Guarantors, The Bank of New York Mellon as trustee (which term includes any successor as trustee under the indenture) and principal paying agent, transfer agent and registrar (which terms include any successor under the indenture) and The Bank of New York Mellon SA/NV, Luxembourg Branch, as Luxembourg paying agent and transfer agent. The Issuer will, under the indenture, appoint a registrar, paying agents and transfer agents, which are identified on the inside back cover page of this offering memorandum. A copy of the indenture, including the form of the bonds, will be available for inspection during normal business hours at the offices of the trustee. The trustee will also act as transfer agent and registrar in the event that the Issuer issues certificates for the bonds in definitive registered form as set forth in “Form of Bonds—Individual Definitive Bonds.”

This description of bonds is a summary of the material provisions of the bonds and the indenture. You should refer to the indenture for a complete description of the terms and conditions of the bonds and the indenture, including the obligations of the Issuer, Gerdau and the other Guarantors, which we refer to collectively as the “Transaction Parties,” and your rights.

You will find the definitions of capitalized terms used in this section under “— Certain Definitions.” For purposes of this section of this offering memorandum, references to (i) the “Issuer” shall mean Gerdau Trade Inc., a subsidiary of Gerdau S.A., and (ii) “Gerdau” shall mean Gerdau S.A. and its successors, and not to its subsidiaries.

General

The bonds:

- are senior unsecured obligations of the Issuer;
- are fully and unconditionally guaranteed by Gerdau and certain of its subsidiaries;
- were initially issued in an aggregate principal amount of US\$650,000,000;
- will mature on October 24, 2027, at a final redemption price of all outstanding principal plus accrued interest;
- were issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof;
- are represented by one or more registered bonds in global form and may be exchanged for bonds in definitive form only in limited circumstances; and
- are not required to be registered under the Securities Act.

Interest on the bonds:

- will accrue at the rate of 4.875% per annum;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in U.S. dollars semi-annually in arrears on April 24 and October 24 of each year, commencing on April 24, 2018, until all required amounts due in respect of the bonds have been paid;
- will be payable to the holders of record on April 9 and October 9 immediately preceding the related interest payment dates; and
- will be computed on the basis of a 360 day year comprised of twelve 30 day months.

Principal of, and interest and any additional amounts on, the bonds will be payable, and the transfer of bonds may be made, at the office of the trustee, and at the offices of the paying agents and transfer agents, respectively. If the bonds are listed on the Euro MTF, the Issuer will maintain a listing agent, paying agent and transfer agent in Luxembourg for so long as the bonds are so listed.

The indenture limits and restricts the Issuer from taking certain actions or engaging in certain activities or transactions. See “—Covenants—Limitations on the Issuer.” The indenture does not limit the amount of debt or other obligations that may be incurred by the Guarantors or any of Gerdau’s non-guarantor subsidiaries (other than the Issuer). Other than the restrictions on liens described below under “—Covenants—Limitations on Liens,” the indenture does not contain any restrictive covenants or other provisions designed to protect holders of the bonds in the event the Transaction Parties or any non-guarantor subsidiary of Gerdau participates in a highly leveraged transaction or upon a change of control, except as set forth under “—Covenants—Repurchase of Bonds upon a Change of Control.”

The Issuer is entitled, without the consent of the holders, to issue additional bonds under the indenture on the same terms and conditions as the bonds being offered hereby in an unlimited aggregate principal amount, which we refer to as the “Additional Bonds.” The bonds and the Additional Bonds, if any, will be treated as a single class for all purposes of the indenture, including waivers and amendments. Unless the context otherwise requires, for all purposes of the indenture and this “Description of the Bonds,” references to the bonds include any Additional Bonds actually issued.

Guarantees

Gerdau and each other Guarantor will jointly and severally guarantee, on a senior unsecured basis, the due and punctual payment of all amounts due and payable on the bonds (including any “make-whole” premium described under “—Early Redemption” and the payment of additional amounts described under “—Additional Amounts”) when and as the same shall become due and payable. No subsidiary of Gerdau, other than the named Guarantors, is or will be obligated to guarantee the bonds.

Ranking

Bonds

The bonds constitute direct senior unsecured obligations of the Issuer. The obligations of the Issuer under the bonds rank at least *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of the Issuer, subject to certain statutory preferences under applicable law, including labor and tax claims.

The obligations of the Issuer under the bonds also rank:

- senior in right of payment to any subordinated debt of the Issuer; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of Gerdau’s subsidiaries that are not Guarantors and to secured debt and other secured obligations of Gerdau to the extent of such security.

Guarantees

The obligations of each Guarantor rank:

- *pari passu* in priority of payment with all existing and future senior unsecured indebtedness of that Guarantor, subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to any subordinated debt of that Guarantor; and
- effectively subordinated to the debt and other obligations (including subordinated debt and trade payables) of that Guarantor’s subsidiaries that are not Guarantors and to secured debt and other secured obligations of that Guarantor to the extent of such security.

None of Gerdau S.A.'s subsidiaries (other than the named Guarantors) is guaranteeing the bonds. Claims of creditors of such non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of Gerdau's creditors, including holders of the bonds. Accordingly, the bonds will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Gerdau's non-guarantor subsidiaries. The indenture does not require any existing subsidiaries (other than the named Guarantors) or any future subsidiaries of Gerdau to guarantee the bonds, and it does restrict any Guarantor from disposing of its assets to a third party or a subsidiary of Gerdau that is not guaranteeing the bonds. See "—Covenants."

As of June 30, 2017, the Issuer had outstanding indebtedness in the amount of R\$6.2 billion (US\$1.9 billion). As of June 30, 2017, the Company had R\$19.8 billion (US\$6.0 billion) of consolidated indebtedness. R\$1.2 billion (US\$370.8 million) of this total amount was structurally senior to the bonds being sold in this offering, including R\$119.2 million (US\$36.1 million) of the Company and the other Guarantors' secured debt and R\$15.5 billion (US\$4.7 billion) of the Company's and the Company's non-guarantor subsidiaries' debt.

During the period from June 30, 2017 through the date hereof the Company did not incur additional indebtedness.

The Company continuously monitors the market for its outstanding securities, and may from time to time engage in liability management transactions with its own obligations.

Early Redemption

The bonds will not be redeemable prior to maturity, except as set forth below and except as described under "—Covenants—Repurchase of Bonds upon a Change of Control."

Early Redemption of Bonds

The bonds will be redeemable at the option of the Issuer, in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), a redemption price equal to the greater of (1) 100% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the bonds (exclusive of the interest accrued to the date of redemption) discounted to the redemption date on an annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points. At any time on or after the date that is six months prior to the maturity of the bonds, the Issuer will have the right to redeem the bonds, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the bonds being redeemed plus accrued and unpaid interest on the principal amount of the bonds being redeemed to such redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having a maturity or interpolated maturity comparable to the remaining term of the bonds that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the bonds.

"Comparable Treasury Price" means, with respect to the redemption date, (1) the average of five Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers reasonably designated by us.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. or its affiliates which are primary United States government securities dealers and not less than three other leading primary United States government securities dealers in New York City reasonably designated by us; *provided* that if any of the former cease to be a primary United States government securities dealer in New York City (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and a redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at or about 3:30 p.m., New York City time, on the third business day preceding such redemption date.

“Treasury Rate” means, with respect to a redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

Early redemption for Taxation Reasons

The bonds will be redeemable at the option of the Issuer, in whole, but not in part, upon giving not less than 30 nor more than 60 days’ notice to the holders (which notice will be irrevocable), at 100% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto only if (i) the Issuer has or will become obligated to pay additional amounts as discussed below under “—Additional Amounts” with respect to such bonds in excess of the additional amounts that the Issuer would pay if payments in respect of the bonds were subject to deduction or withholding at a rate of 15% (determined without regard to any interest, fees, penalties or other additions to tax) as a result of any change in, or amendment to, the treaties, laws or regulations of the British Virgin Islands, Brazil or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of the indenture, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. For the avoidance of doubt, for purposes of the preceding sentence, reasonable measures shall include a change of the jurisdiction of incorporation, residence or domicile of the Issuer, or any paying agent. No such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such additional amounts if a payment in respect of such bonds were then due.

Prior to the publication or mailing of any notice of redemption of the bonds as described above, the Issuer must deliver to the trustee an officers’ certificate to the effect that the obligations of the Issuer to pay additional amounts cannot be avoided by the Issuer taking reasonable measures available to it. The Issuer will also deliver an opinion of an independent legal counsel of recognized standing stating that the Issuer either has or will become obligated to pay additional amounts due to the changes in treaties, tax laws or regulations. The trustee will accept this certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (i) and (ii) of the preceding paragraph, in which event it will be conclusive and binding on the holders.

Open Market Purchases

The Issuer, the Guarantors or their respective affiliates may at any time purchase bonds in the open market or otherwise at any price. Any such purchased bonds may be held in treasury or may be resold in compliance with applicable requirements or exemptions under the relevant securities, or other, laws.

Payments

The Issuer will make all payments on the bonds exclusively in U.S. dollars.

The Issuer will make payments of principal and interest on the bonds to the principal paying agent (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the trustee and the other paying agents or to the holders. See “Taxation.”

The Issuer will pay principal and interest on the bonds to the persons in whose name the bonds are registered at the close of business on the 15th day before the due date for payment. Payments of principal and interest in respect of each bond will be made by the paying agents by U.S. dollar check drawn on a bank in New York City and mailed to the holder of such bond at its registered address. Upon application by the holder to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a bond, such payment may be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Under the terms of the indenture, payment by the Issuer of any amount payable under the bonds on the due date thereof to the principal paying agent in accordance with the indenture will satisfy the obligation of the Issuer to make such payment; *provided, however*, that the liability of the principal paying agent shall not exceed any amounts paid to it by the Issuer, or held by it, on behalf of the holders under the indenture. The Issuer has agreed to indemnify the holders of the bonds in the event that there is a subsequent failure by the trustee or any paying agent to pay any amount due in respect of the bonds in accordance with the bonds and the indenture so that the holders will receive such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the trustee and the paying agents will pay to the Issuer upon written request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer for payment as general creditors. After the return of such monies by the trustee or the paying agents to the Issuer, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

The Issuer shall pay interest on overdue principal or installments of interest, to the extent lawful, at the rate borne by the bonds plus 1% per annum from and including the date when such amounts were due and through and including the date of payment by the Issuer.

Notwithstanding the provisions of this Section, payments on the bonds registered on the name of DTC shall be effected in accordance with DTC’s applicable procedures.

Prescription

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of principal of or interest on any Bond and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Company at the written request of the Company, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Bond shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, shall, upon request and at the expense of the Company, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in (i) the Borough of Manhattan, The City of New York and (ii) if and so long as the Bonds continue to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF (and if so required by the guidelines of the Euro MTF of the Luxembourg Stock Exchange), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

Listing

The Issuer will use commercially reasonable efforts to cause the bonds to be listed on the Official List of the Luxembourg Stock Exchange and to trade the bonds on the Euro MTF and to remain so listed so long as the Issuer and the Guarantors do not reasonably believe that doing so would impose burdensome financial reporting or other requirements, or costs relating thereto.

Further Issuances

Under the indenture, the Issuer may from time to time, without the consent of the holders of the bonds, issue additional bonds on terms and conditions identical to those of the bonds, which additional bonds shall increase the aggregate principal amount of, and shall be consolidated, form a single series and vote together with, the bonds, provided that such additional bonds shall be issued under a separate CUSIP number if such additional bonds are not fungible with the original bonds for U.S. federal income tax purposes.

Form, Denomination and Title

The bonds will be in registered form without coupons attached in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

Bonds sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream Luxembourg. Bonds sold in reliance on Rule 144A will be represented by one or more permanent global bonds in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Bonds represented by the global bonds will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such bonds will therefore settle in immediately available funds. Beneficial interests in the global bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg. Except in certain limited circumstances, definitive registered bonds will not be issued in exchange for beneficial interests in the global bonds. See "Form of Bonds — Global Bonds."

The bonds will be registered in the register of holders of the bonds held at the registered office of the Trustee (the "Bond Register"). In case of discrepancies between the Bond Register and any other register, the Bond Register shall prevail for evidence of ownership.

Title to the bonds will pass by registration in the Bond Register. The holder of any bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive bond issued in respect of it) and no person will be liable for so treating the holder.

Transfer of Bonds

Certificated bonds may be transferred in whole or in part in an authorized denomination upon the surrender of the bond to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new bond to be issued upon exchange of bonds or transfer of bonds will be mailed at the risk of the holder entitled to the bond to such address as may be specified in such request or form of transfer.

Bonds will be subject to certain restrictions on transfer as more fully set out in the indenture. See "Notice to Investors." Transfer of beneficial interests in the global bonds will be effected only through records maintained by DTC and its participants. See "Form of Bonds."

Transfers of bonds will be effected by or on behalf of the Issuer, the registrar or the transfer agents, without charge to the holder except for any tax or governmental charges or insurance charges which may be imposed in relation to such transfer or any expenses of delivery other than regular mail. The Issuer is not required to transfer or exchange any individual definitive bond selected for redemption.

No holder may require the transfer of a bond to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that bond.

Additional Amounts

All payments by the Issuer or a Guarantor in respect of the bonds will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of the British Virgin Islands, Brazil or any political subdivision or authority of or in the British Virgin Islands or Brazil having power to tax, or any other jurisdiction in which the Issuer or a Guarantor is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (any of the aforementioned being a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In the event that any such taxes, duties, assessments, fees or other governmental charges (and any fines, penalties or interest related thereto) are so imposed or levied, the Issuer, or a Guarantor, as applicable, will pay to each holder such additional amounts as may be necessary in order that every net payment made by the Issuer or a Guarantor, as applicable, on each bond after such withholding or deduction imposed upon or as a result of

such payment by a Taxing Jurisdiction will not be less than the amount then due and payable on such bond. The foregoing obligation to pay additional amounts, however, will not apply to or in respect of:

- any tax, duty, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder, on the one hand, and the relevant Taxing Jurisdiction, on the other hand (including, without limitation, such holder being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of, or the enforcement of rights under, such bond;
- any tax, duty, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of the holder or beneficial owner of a bond (including, without limitation, a certification that the holder or beneficial owner is not resident in the relevant Taxing Jurisdiction) if (a) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which the Issuer or a Guarantor, as applicable, will apply this clause, either the Issuer or a Guarantor, as applicable, will have notified all holders of bonds that some or all holders of bonds will be required to comply with such requirement and (c) in no event shall such holder's requirement to make such a declaration, claim or filing require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file U.S. Internal Revenue Service Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY;
- any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;
- any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest on the bond; or
- any combination of the above.

The Issuer or a Guarantor, as applicable, will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration, enforcement or the making of payments in respect of the bonds, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the British Virgin Islands or Brazil, other than those resulting from, or required to be paid in connection with, the enforcement of the bonds following the occurrence of any Default or Event of Default.

No additional amounts will be paid with respect to a payment on any bond to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the bond.

The Issuer or a Guarantor, as applicable, will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available without unreasonable burden or expense, a certified copy thereof or, if such certified copy is not available, other documentation satisfactory to the trustee) evidencing any payment of taxes, penalties, duties, assessments, fees or other governmental charges in respect of which the Issuer or such Guarantor has paid any additional amounts. Copies of such documentation will be made available to the holders of the bonds or the paying agents, as applicable, upon request therefor.

All references in this offering memorandum to principal of and interest on the bonds will include any additional amounts payable by the Issuer in respect of such principal and such interest. The obligations described under “Additional Amounts” will survive until the bonds have been paid in full and will apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer or a Guarantor is organized or any political subdivision or taxing authority or agency thereof or therein.

The Issuer and the Guarantors undertake that, while European Council Directive 2003/48/EC, as amended, or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is in effect, the Issuer and the Guarantors will ensure that it maintains a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Covenants

Limitations on the Issuer

The indenture limits and restricts the Issuer from taking the following actions or engaging in the following activities or transactions:

- (1) so long as any of the bonds are outstanding, incurring or permitting to exist any Debt for borrowed money unless such financing transactions are guaranteed by one or more of the Guarantors in respect of the amounts so financed; and
- (2) entering into any consolidation, merger, amalgamation, joint venture or other form of combination with any person, or selling, leasing, conveying or otherwise disposing of any of its assets or receivables, except as otherwise permitted under “—Limitation on Consolidation, Merger or Transfer of Assets” below.

Limitation on Liens

The Issuer will not create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on its Capital Stock. Under the indenture, the Guarantors will not, nor will Gerdau permit any Restricted Subsidiary, including any of the Guarantors, to, create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on any of their Capital Stock securing any obligation, unless contemporaneously therewith effective provision is made to secure the bonds equally and ratably with such obligation for so long as such obligation is so secured. The preceding sentence will not require any of the Guarantors or any Restricted Subsidiary to equally and ratably secure the bonds if the Lien consists of the following:

- (1) any Lien existing on the date of the indenture, and any extension, renewal or replacement thereof or of any Lien in clause (2), (3) or (4) below; *provided, however*, that the total amount of Debt so secured is not increased;
- (2) any Lien on any property or assets (including Capital Stock of any person) securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the indenture; *provided* that (a) the aggregate principal amount of Debt secured by such Lien will not exceed (but may be less than) the cost (i.e., purchase price) of the property or assets so acquired, constructed or improved and (b) such Lien is incurred before, or within 120 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of the Guarantors or any Restricted Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, such Lien also may encumber other property or assets of the person so acquired;
- (3) any Lien securing Debt incurred for the purpose of financing all or part of the cost of the acquisition, construction or development of a project (including mini-mills and other facilities); *provided* that the lenders of such Debt expressly agree to limit their recourse in respect of such Debt to assets (including Capital Stock of the project entity) and/or revenues of such project with an aggregate value of not more than the amount of such Debt; and *provided, further*, that the Lien is incurred before, or within 120 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets of Gerdau or any Subsidiary;

(4) any Lien existing on any property or assets of any person before that person's acquisition by, merger into or consolidation with Gerdau or any Restricted Subsidiary after the date of the indenture; *provided that* (a) such Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (b) the Debt secured by such Lien may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (c) such Lien will not apply to any other property or assets of Gerdau or any of its Restricted Subsidiaries and (d) such Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;

(5) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;

(6) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which Gerdau or any Restricted Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which Gerdau or any Restricted Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(7) any Lien in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of Gerdau or any Restricted Subsidiary in the ordinary course of business;

(8) any Lien securing taxes, assessments and other governmental charges, the payment of which are not yet due or are being contested in good faith by appropriate proceedings and for which such reserves or other appropriate provisions, if any, have been established as required by IFRS;

(9) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of Gerdau or any Restricted Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(10) any rights of set-off of any person with respect to any deposit account of Gerdau or any Restricted Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(11) any Liens granted to secure borrowings from, directly or indirectly, (a) *Banco Nacional de Desenvolvimento Econômico e Social – BNDES*, or any other Brazilian governmental development bank or credit agency or (b) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;

(12) any Liens on the inventory or receivables of Gerdau or any Restricted Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in connection with any structured export or import financing or other trade transaction; *provided that* the aggregate principal amount of Debt incurred that is secured by receivables that will fall due in any fiscal year shall not exceed (a) with respect to transactions secured by receivables from export sales, 80% of Gerdau's consolidated gross revenues from export sales for the immediately preceding fiscal year of Gerdau; or (b) with respect to transactions secured by receivables from domestic (Brazilian) sales, 80% of such person's consolidated gross revenues from sales within Brazil for the immediately preceding fiscal year of Gerdau; and *provided, further*, that Advance Transactions will not be deemed transactions secured by receivables for purpose of the above calculation; and

(13) in addition to the foregoing Liens set forth in clauses (1) through (12) above, Liens securing Debt of Gerdau or any Restricted Subsidiary (including, without limitation, guarantees of Gerdau or any Restricted Subsidiary) the aggregate principal amount of which, at any time of determination, does not exceed 15% of Consolidated Net Tangible Assets.

Limitation on Transactions with Affiliates

The Transaction Parties will not, nor will they permit any Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate, other than a Wholly-owned Subsidiary, which we refer to as an “Affiliate Transaction,” unless the terms of the Affiliate Transaction are no less favorable to such Transaction Party or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm’s length dealings with a person who is not an Affiliate.

Limitation on Consolidation, Merger or Transfer of Assets

No Transaction Party will consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any person, unless:

(1) the resulting, surviving or transferee person or persons (if not a Transaction Party) will be a person or persons organized and existing under the laws of Brazil, the United States, the British Virgin Islands, any State thereof or the District of Columbia, Canada or any other country that is a member country of the European Union or of the Organization for Economic Co-operation and Development on the date of the indenture, and such person or persons expressly assume, by a supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of such Transaction Party under the indenture;

(2) the resulting, surviving or transferee person or persons (if not a Transaction Party), if not organized and existing under the laws of Brazil or the British Virgin Islands undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the bonds or the guarantees, as applicable, after deduction or withholding for or on account of any present or future tax, penalty, duty, assessment, fee or other governmental charge (and any fines, penalties, interest or other liabilities related thereto) imposed by the United States or such other country, as the case may be, or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the bonds, subject to the same exceptions set forth under clauses (i), (ii) and (iii) under “Additional Amounts” but adding references to the United States or such other country to the existing references in such clause to Brazil or the British Virgin Islands;

(3) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) the Transaction Parties will have delivered to the trustee an officers’ certificate and an opinion of legal counsel of recognized standing, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture, if any, comply with the indenture and that all conditions precedent under the indenture to the consummation of such transaction have been satisfied.

The trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

Repurchase of Bonds upon a Change of Control

Not later than 30 days following a Change of Control that results in a Ratings Decline, Gerdau, acting on behalf of the Issuer, will make an Offer to Purchase all outstanding bonds at a purchase price equal to 101% of the principal amount plus accrued interest to the date of purchase.

An “Offer to Purchase” must be made by written offer, which will specify the principal amount of bonds subject to the offer and the purchase price. The offer must specify an expiration date, which we refer to as the “Expiration Date,” not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase, which we refer to as the “Purchase Date,” not more than five Business Days after the Expiration Date. The offer must include information concerning the business of Gerdau which it believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable holders to tender bonds pursuant to the offer. Gerdau will

comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A holder may tender all or any portion of its bonds pursuant to an Offer to Purchase, subject to the requirements that any portion of a bond tendered must be in a multiple of US\$1,000 principal amount, the minimum tender of any holder must be no less than US\$200,000 and, if tendered in part, the residual amount cannot be less than US\$200,000. Holders shall be entitled to withdraw bonds tendered up to the close of business on the Expiration Date. On the Purchase Date the purchase price will become due and payable on each bond accepted for purchase pursuant to the Offer to Purchase, and interest on bonds purchased will cease to accrue on and after the Purchase Date.

Gerdaу agrees to obtain all necessary consents and approvals from all appropriate Brazilian and other governmental authorities or agencies having jurisdiction over Gerdaу and the Offer to Purchase for the remittance of funds outside of Brazil prior to making any Offer to Purchase. Any failure to obtain such consents and approvals shall constitute an Event of Default hereunder.

Reporting Requirements

Gerdaу, acting on behalf of the Transaction Parties, will provide or make available to the trustee the following reports (and will also provide the trustee with electronic versions or, in lieu thereof, sufficient copies of the following reports referred to in clauses (1) through (4) below for distribution, at Gerdaу's expense, to all holders of bonds):

(1) an English language version of Gerdaу's annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 180 days after the close of its fiscal year;

(2) an English language version of Gerdaу's unaudited quarterly financial statements prepared in accordance with IFRS (including, as supplementary information, an unaudited condensed consolidated balance sheet and an unaudited condensed consolidated statement of operations, in each case, prepared in accordance with IFRS), promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of its fiscal year);

(3) simultaneously with the delivery of each set of financial statements referred to in clauses (1) and (2) above, an officers' certificate from Gerdaу stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Issuer and/or any Guarantor is taking or proposes to take with respect thereto;

(4) without duplication, English language versions (or summaries) of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Issuer and/or the Guarantors with (a) the Brazilian Securities Commission, which we refer to as the "CVM," (b) the Euro MTF or any other stock exchange, if any, on which the bonds may be listed or (c) the SEC (in each case, to the extent that any such report or notice is generally available to their security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act, or otherwise); and

(5) upon any director or executive officer of any of the Transaction Parties becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either principal or interest on the bonds are prohibited, an officers' certificate setting forth the details thereof and the action which Gerdaу is taking or proposes to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee's access to, or receipt of, such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including compliance by the Transaction Parties with any of their covenants in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

None of the Transaction Parties other than Gerdau will be required to provide or distribute any financial or other reports described above.

Events of Default

An “Event of Default” occurs if:

(1) there is a failure to pay interest (including any related additional amounts) on any bond when the same becomes due and payable, and such default continues for a period of 30 days;

(2) there is failure to pay principal (including any related additional amounts) of any bond when the same becomes due and payable upon redemption or as described under “—Covenants—Repurchase upon a Change of Control” or otherwise;

(3) any of the Transaction Parties fails to comply with any of the covenants described under “—Covenants—Limitation on the Issuer,” “—Covenants—Limitation on Liens,” “—Covenants—Limitation on Transactions with Affiliates” or “—Covenants—Limitation on Consolidation, Merger or Transfer of Assets,” and such failure continues for 30 days after the notice specified below;

(4) any of the Transaction Parties fails to comply with any of its covenants or agreements in the bonds or the indenture (other than those referred to in (1), (2) and (3) above), and such failure continues for 60 days after the notice specified below;

(5) any of the Transaction Parties or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for borrowed money by such Transaction Parties or any such Significant Subsidiary (or the payment of which is guaranteed by such Transaction Parties or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default, which we refer to as a “Payment Default,” or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals US\$100.0 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(6) one or more final judgments or decrees for the payment of money of US\$35.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against any of the Transaction Parties or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(7) certain events of bankruptcy or insolvency of any of the Transaction Parties or any Significant Subsidiary occur; or

(8) any guarantee of the bonds ceases to be in full force and effect or any of the Guarantors denies or disaffirms its obligations under its guarantee of the bonds.

A Default under clause (3) or (4) above will not constitute an Event of Default until the trustee or the holders of at least 25% in principal amount of the bonds outstanding notify the Transaction Parties of the Default and the Transaction Parties do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless a written notice of such Default or Event of Default has been

given to a responsible officer of the trustee by any of the Transaction Parties or any holder and such notice states that a Default or Event of Default has occurred and references the Indenture.

If an Event of Default (other than an Event of Default specified in clause (7) above) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the bonds then outstanding may declare all unpaid principal of and accrued interest on all bonds to be due and payable immediately, by a notice in writing to the Transaction Parties (and to the trustee, if notice is given by the holders), stating that such notice is an “acceleration notice,” and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (7) above occurs and is continuing, then the principal of and accrued interest on all bonds will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders have offered to the trustee indemnity satisfactory to the trustee. Subject to such provision for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the outstanding bonds will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

The Transaction Parties may at any time terminate all of their obligations with respect to the bonds, which we refer to as “defeasance,” except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the bonds, to replace mutilated, destroyed, lost or stolen bonds and to maintain agencies in respect of bonds. The Transaction Parties may at any time terminate their obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the bonds issued under the indenture, which we refer to as “covenant defeasance.” In order to exercise either defeasance or covenant defeasance, the Transaction Parties, either acting through Gerdau or otherwise, must irrevocably deposit in trust, for the benefit of the holders of the bonds, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, and interest on the bonds to redemption or maturity and comply with certain other conditions, including the delivery of certain opinions of counsel as to certain tax matters.

Amendment, Supplement, Waiver

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the bonds then outstanding, and any past Default or Event of Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the bonds then outstanding. However, without the consent of each holder of an outstanding bond affected thereby, no amendment or waiver may:

- reduce the rate of or extend the time for payment of interest on any bond;
- reduce the principal of any bond;
- reduce the amount payable upon redemption of any bond or change the time at which any bond may be redeemed;
- change the currency for or place of payment of principal of or interest on any bond;
- impair the right to institute a suit for the enforcement of any right to payment on or with respect to any bond;
- waive certain payment defaults with respect to the bonds;

- reduce the principal amount of bonds whose holders must consent to any amendment or waiver; or
- make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the bonds will receive prior notice as described under “— Notices” of any proposed amendment to the bonds or the indenture or any waiver described in this paragraph. After an amendment or waiver described in the preceding paragraph becomes effective, the Issuer is required to mail to the holders a notice briefly describing such amendment or waiver. However, the failure to give such notice to all holders of the bonds, or any defect therein, will not impair or affect the validity of the amendment or waiver.

The consent of the holders of the bonds is not necessary to approve the particular form of any proposed amendment or waiver. It is sufficient if such consent approves the substance of the proposed amendment or waiver.

The Transaction Parties and the trustee may, without notice to or the consent or vote of any holder of the bonds, amend or supplement the indenture or the bonds for the following purposes:

- to cure any ambiguity, omission, defect or inconsistency, provided that such amendment or supplement does not materially and adversely affect the rights of any holder;
- to comply with the covenant described under “— Limitation on Consolidation, Merger or Transfer of Assets”;
- to add guarantees or collateral with respect to the bonds;
- to add to the covenants of any of the Transaction Parties for the benefit of holders of the bonds;
- to surrender any right conferred upon any of the Transaction Parties;
- to evidence and provide for the acceptance of an appointment by a successor trustee;
- to comply with any requirements of the SEC in connection with any qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended;
- to provide for the issuance of additional bonds; or
- to make any other change that does not materially and adversely affect the rights of any holder of the bonds.

Notices

In the case of global bonds, notices to be given to holders will be given to the depository, as the holder thereof, and such depository will communicate such notice to its participants in accordance with its applicable policies as in effect from time to time. If bonds are issued in certificated form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the bonds at their registered addresses as they appear in the trustee's records. For so long as the bonds are listed on the Euro MTF and it is required by the rules of the Luxembourg Stock Exchange, all such notices to the holders of the bonds will be published through the Luxembourg Stock Exchange's website, at www.bourse.lu.

Trustee

The Bank of New York Mellon is the trustee under the indenture.

The indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture.

Except during the continuance of an Event of Default, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into

the indenture against the trustee or the principal paying agent. In case an Event of Default has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in such exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee or the principal paying agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

The Transaction Parties and their respective Affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates. The address of the trustee is 101 Barclay Street, New York, New York 10286, U.S.A.

Governing Law and Submission to Jurisdiction

The bonds, the indenture and the guarantees will be governed by the laws of the State of New York.

The Transaction Parties will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the bonds and the indenture. The Transaction Parties have appointed Law Debenture Corporate Services Inc. as their authorized agent upon which process may be served in any such action.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Transaction Parties under or in connection with the bonds, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of a judgment or the enforcement of a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of any of the Transaction Parties or otherwise) by any holder of a bond in respect of any sum expressed to be due to it from any of the Transaction Parties will only constitute a discharge of such sum to the extent of the amount of U.S. dollars that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any bond, the Transaction Parties will jointly and severally indemnify such holder against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a bond, be deemed to have agreed to repay such excess. In any event, the Transaction Parties will jointly and severally indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a bond to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Transaction Parties, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a bond and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any bond.

Waiver of Immunities

To the extent that the Issuer and the Guarantors may in any jurisdiction claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with and as set out in the indenture and the bonds and to the extent that in any jurisdiction there may be immunity attributed to the Issuer, the Guarantors, the Issuer's assets or the Guarantors' assets, whether or not claimed, the Issuer and the Guarantors have irrevocably agreed for the benefit of the holders of the bonds not to claim, and irrevocably waive, the immunity to the full extent permitted by law.

Certain Definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Advance Transaction” means an advance from a financial institution involving either (a) a foreign exchange contract (ACC — *Adiantamento sobre Contrato de Câmbio*) or (b) an export contract (ACE — *Adiantamento sobre Cambiais Entregues*).

“Affiliate” means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Brazil” means the Federative Republic of Brazil.

“Business Day” means any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in The City of New York, São Paulo, Brazil or the British Virgin Islands.

“Capital Stock” of any person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting) such person’s equity, including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Change of Control” means: (1) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, other than any Permitted Holders) is or becomes the “beneficial owner” (as such term is used in Rules 13d-3 under the Exchange Act), directly or indirectly, of more than 50.0% of the total voting power of the outstanding voting stock of Gerdau, including as a result of any merger or consolidation transaction including Gerdau or any of the other Guarantors; or (2) Permitted Holders, directly or indirectly, cease to have the power to direct or cause the direction of the management and policies of Gerdau, whether through the ownership of voting securities, by contract or otherwise.

“Consolidated Net Tangible Assets” means the total amount of assets of Gerdau and its Subsidiaries less (a) applicable depreciation, amortization and other valuation reserves, (b) all current liabilities excluding intercompany Debt and (c) all goodwill, trade names, trademarks, patents, and other intangibles, each as set forth on the most recent financial statements delivered by Gerdau to the trustee in accordance with “— Covenants — Reporting Requirements.”

“CVM” means the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*.

“Debt” means, with respect to any person, without duplication:

(a) the principal of and premium, if any, in respect of (i) indebtedness of such person for borrowed money and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such person is responsible or liable;

(b) all Finance Lease Obligations of such person;

(c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);

(d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business

Day following receipt by such person of a demand for reimbursement following payment on the letter of credit);

(e) all Hedging Obligations of such person;

(f) all obligations of the type referred to in clauses (a) through (d) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);

(g) all obligations of the type referred to in clauses (a) through (e) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and

(h) any other obligations of such person which are required to be, or are in such person's financial statements, recorded or treated as debt under IFRS.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Finance Lease Obligations" means, with respect to any person, any obligation which is required to be classified and accounted for as a finance lease on the face of a balance sheet of such person prepared in accordance with IFRS; the amount of such obligation will be the capitalized amount thereof, determined in accordance with IFRS; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Guarantee" means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term "guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"Guarantor" means each of Gerdau S.A. and its subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. until replaced by a successor thereof and, thereafter, includes the successor for purposes of any provision contained in the indenture.

"Gerdau Johannpeter Family" includes Frederico Gerdau Johannpeter, Germano Gerdau Johannpeter, Jorge Gerdau Johannpeter and Klaus Gerdau Johannpeter, together with their respective spouses, lineal descendants and heirs or trusts that are exclusively for the benefit of any of the foregoing (provided that any of the foregoing has the right to control such trust).

"Hedging Obligations" means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

"holder" means the person in whose name a bond is registered in the register.

"IFRS" means International Financial Reporting Standards as in effect from time to time.

"Investment" means, with respect to any person, any loan or advance to, any acquisition of Capital Stock, equity interests, obligations or other securities of, any capital contribution to or any other investment in, such person.

“Issuer” means Gerdau Trade Inc.

“Lien” means any mortgage, pledge, security interest, encumbrance, conditional sale or other title retention agreement or other similar lien.

“Permitted Holders” means any or all of the following: (1) any member of the Gerdau Johannpeter Family or any Affiliate or Affiliates of any of the foregoing and (2) any person the voting stock of which (or in the case of a trust, the beneficial interests in which), is owned at least 51% by persons specified in clause (1).

“person” means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency, department or political subdivision thereof.

“Rating Agencies” means, as applicable, (i) Standard & Poors Corporation, a division of The McGraw-Hill Company, (ii) Moody’s Investors Service, Inc., or (iii) Fitch Ratings Ltd.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the bonds is under publicly announced consideration for possible downgrade by any Rating Agency) after the date of public notice of a Change of Control, or of Gerdau’s publicly declared intention or that of any person or entity to effect a Change of Control, the then-applicable rating of the bonds is decreased by any Rating Agency by one or more categories so long as any such Ratings Decline is expressly stated by the applicable Rating Agency to have been the result of the Change in Control.

“Restricted Subsidiaries” means any Subsidiary of Gerdau, including the Issuer, other than Gerdau Ameristeel Corporation, any of their subsidiaries and any other person in which they have an equity interest.

“Significant Subsidiary” means any Subsidiary of Gerdau which at the time of determination either (i) had assets which, as of the date of Gerdau’s most recent quarterly consolidated balance sheet, constituted at least 10% of Gerdau’s total assets on a consolidated basis as of such date, or (ii) had revenues for the 12 month period ending on the date of Gerdau’s most recent quarterly consolidated statement of income which constituted at least 10% of Gerdau’s total revenues on a consolidated basis for such period.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency, unless such contingency has occurred).

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) Gerdau, (b) Gerdau and one or more Subsidiaries (including the Issuer) or (c) one or more Subsidiaries.

“Wholly-owned Subsidiary” means a Subsidiary all of the Capital Stock of which (other than directors’ qualifying shares) is owned by Gerdau or another Wholly-owned Subsidiary.

FORM OF BONDS

Bonds sold in offshore transactions in reliance on Regulation S will be represented by a permanent global bond or bonds in fully registered form without interest coupons, which we refer to as the “Regulation S Global Bond,” and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. Bonds sold in reliance on Rule 144A will be represented by a permanent global bond or bonds in fully registered form without interest coupons, which we refer to as the “Restricted Global Bond” and, together with the Regulation S Global Bond, the “global bonds,” and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The bonds will be subject to certain restrictions on transfer as described in “Notice to Investors.” On or prior to the 40th day after the closing date of this offering, a beneficial interest in the Regulation S Global Bond may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Bond only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction, which we refer to as a “Restricted Global Bond Certificate.” After such 40th day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Bond may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond, whether before, on or after such 40th day, only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144A under the Securities Act, which we refer to as a “Regulation S Global Bond Certificate.” Any beneficial interest in one of the global bonds that is transferred to a person who takes delivery in the form of an interest in the other global bond will, upon transfer, cease to be an interest in such global bond and become an interest in the other global bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global bond for as long as it remains an interest.

Except in the limited circumstances described under “—Individual Definitive Bonds,” owners of the beneficial interests in global bonds will not be entitled to receive physical delivery of individual definitive bonds. The bonds are not issuable in bearer form.

Global Bonds

Upon the issuance of the Regulation S Global Bond and the Restricted Global Bond, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global bond will be limited to persons who have accounts with DTC, which we refer to as “DTC Participants,” or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the bonds represented by such global bond for all purposes under the indenture and the bonds. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depository for a global bond, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the bonds becomes immediately due and payable in accordance with “Description of Bonds—Events of Default,” owners of beneficial interests in a global bond will not be entitled to have any portions of such global bond registered in their names, will not receive or be entitled to receive physical delivery of bonds in individual definitive form and will not be considered the owners or holders of the global bond (or any bonds represented thereby) under the indenture or the bonds. In addition, no beneficial owner of an interest in a global bond will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream Luxembourg).

Investors may hold interests in the global bond through Euroclear or Clearstream Luxembourg, if they are participants in such systems. Euroclear and Clearstream Luxembourg will hold interests in the global bonds

on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in the global bond in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in the Restricted Global Bond directly through DTC, if they are DTC Participants, or indirectly through organizations which are DTC Participants.

Payments of the principal of and interest on global bonds will be made to DTC or its nominee as the registered owner thereof. None of the Issuer, the Guarantors or the initial purchasers will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer anticipates that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global bond representing any bonds held by its nominee, will credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global bond as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global bond held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global bond to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global bond to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between accountholders in Euroclear and Clearstream Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions on the bonds described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream Luxembourg account holders, on the other hand, will be effected at DTC in accordance with DTC rules on behalf of Euroclear or Clearstream Luxembourg, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Bond in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream Luxembourg account holders may not deliver instructions directly to the depositaries for Euroclear or Clearstream Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream Luxembourg account holder purchasing an interest in a global bond from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global bond settled during such processing day will be reported to the relevant Euroclear or Clearstream Luxembourg accountholder on such day. Cash received in Euroclear or Clearstream Luxembourg as a result of sales of interests in a global bond by or through a Euroclear or Clearstream Luxembourg account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by holder of bonds (including the presentation of bonds for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global bonds are credited and only in respect of such

portion of the aggregate principal amount of the bonds as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described below, DTC will exchange the global bonds for individual definitive bonds (in the case of bonds represented by the Restricted Global Bond, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global bonds through DTC Participants have no direct rights to enforce such interests while the bonds are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global bond will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, which we refer to as “indirect participants.”

Although DTC, Euroclear and Clearstream Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Bond and in the Restricted Global Bond among participants and accountholders of DTC, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the trustee will have any responsibility for the performance of DTC, Euroclear or Clearstream Luxembourg or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Individual Definitive Bonds

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository or DTC ceases to be a “clearing agency” and a successor depository is not appointed by the Issuer within 90 days or (2) any of the bonds has become immediately due and payable in accordance with “Description of Bonds — Events of Default,” the Issuer will issue individual definitive bonds in registered form in exchange for the Regulation S Global Bond and the Restricted Global Bond, as the case may be. Upon receipt of such notice from DTC or the trustee, as the case may be, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global bonds for individual definitive bonds and cause the requested individual definitive bonds to be executed and delivered to the trustee in sufficient quantities and authenticated by the trustee for delivery to holders. Persons exchanging interests in a global bond for individual definitive bonds will be required to provide the registrar with (a) written instruction and other information required by the Issuer and the registrar to complete, execute and deliver such individual definitive bonds and (b) in the case of an exchange of an interest in a Restricted Global Bond, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive bonds delivered in exchange for any global bond or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive bonds issued in exchange for the Restricted Global Bond, such individual definitive bonds will bear, and be subject to, the legend described in “Notice to Investors” (unless the Issuer determines otherwise in accordance with applicable law). The holder of a restricted individual definitive bond may transfer such bond, subject to compliance with the provisions of such legend, as provided in “Description of Bonds.” Until the removal of the legend on the Restricted Global Bond, which will occur only at the option of the Issuer, upon the transfer, exchange or replacement of bonds bearing the legend, or upon specific request for removal of the legend on a bond, the Issuer will deliver only bonds that bear such legend, or will refuse to remove such legend, as the case may be. Before any individual definitive bond may be transferred to a person who takes delivery in the form of an interest in any global bond, the transferor will be required to provide the principal paying agent with a Restricted Global Bond Certificate or a Regulation S Global Bond Certificate, as the case may be.

Individual definitive bonds will not be eligible for clearing and settlement through Euroclear, Clearstream Luxembourg or DTC.

TAXATION

The following discussion summarizes certain Brazilian, British Virgin Islands and U.S. federal income tax considerations (and certain European Union related tax considerations) that may be relevant to you if you invest in the bonds. This summary is based on laws and regulations now in effect in Brazil, laws, regulations, rulings and decisions now in effect in the United States and the British Virgin Islands and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

The following is a general discussion of certain tax considerations for prospective investors in the bonds. The discussion is based upon present law and interpretations of present law as in effect on the date of this prospectus supplement, both of which are subject to prospective and retroactive changes. The discussion does not consider any investor's particular circumstances, and it is not intended as tax advice. Each prospective investor is urged to consult its tax advisor about the tax consequences of an investment in the bonds under the laws of the British Virgin Islands, Brazil and the United States, jurisdictions from which the Issuer or the Company may derive their income or conduct their activities, and jurisdictions where the investor is subject to taxation.

British Virgin Islands Tax Considerations

The tax status of the Issuer under the tax laws of the British Virgin Islands is summarized below. The summary is based on the assumption that the Issuer is owned, managed and operated as contemplated.

The Issuer and all dividends, interest, rents, royalties, compensations and other amounts paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Ordinance in the British Virgin Islands and any capital gains realized with respect to any bonds (including the bonds), debentures, debt obligations, or other securities of the Issuer by persons who are not persons resident in the British Virgin Islands are exempt from all forms of taxation in the British Virgin Islands. As of January 1, 2005, the Payroll Taxes Act, 2004 came into force. It will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands. The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any bonds, debentures, debt obligation or other securities of the Issuer.

Subject to the transfer by the Issuer of an interest in land in the British Virgin Islands or transactions in respect of the shares, debt obligations or other securities to the extent the Issuer is a "land owning company", all instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the bonds, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands. Under the laws of the British Virgin Islands the Issuer would only be a "land owning company" if it or any of its subsidiaries has an interest in land in the British Virgin Islands. The Issuer at present has no interest in land in the British Virgin Islands and no intention of acquiring an interest in land in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer.

The British Virgin Islands has signed two inter-governmental agreements to improve international tax compliance and the exchange of information - one with the United States and one with the United Kingdom (the "US IGA" and the "UK IGA", respectively). The British Virgin Islands has also signed, along with over 90 other countries, a multilateral competent authority agreement to implement the Organisation for Economic Co-Operation and Development (OECD) Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "CRS" and together with the US IGA and the UK IGA, "AEOI").

Amendments have been made to the Mutual Legal Assistance (Tax Matters) Act, 2003 of the British Virgin Islands and orders have been made pursuant to this Act to give effect to the terms of the US IGA and the UK IGA under British Virgin Islands law (the "BVI legislation"). Guidance notes were published by the

government of the British Virgin Islands in March 2015 to provide practical assistance to entities and others affected by the US IGA and/or UK IGA and the BVI legislation (the "Guidance Notes"). Further amendments have been made to the BVI legislation to give effect to the terms of the CRS, which took effect on 1 January 2016. The implementing legislation makes it clear that the CRS commentary published by the OECD is an integral part of the CRS and applies for the purposes of the automatic exchange of financial account information although additional guidance may be issued to aid with compliance with the BVI legislation relating to CRS.

All BVI "Financial Institutions" are required to comply with the registration, due diligence and reporting requirements of the BVI legislation, except to the extent that they can rely on an exemption that allows them to become a "Non-Reporting Financial Institution" (as defined in the relevant BVI legislation) with respect to one or more of the AEOI regimes.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the bonds by an individual, entity, trust or organization considered as resident or domiciled outside Brazil for tax purposes (a "Non-Resident Holder"). The discussion contained herein is based on the tax laws of Brazil as in effect on the date hereof and is subject to any possible changes in Brazilian law that may come into effect after such date.

The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the bonds and it is not applicable to all categories of investors, some of which may be subject to special rules. Prospective investors should consult their own tax advisors as to the consequences of purchasing the bonds, including, without limitation, the consequences of the receipt of interest and the sale, redemption or repayment of the bonds.

Payments on the bonds made by the Issuer and gains on the bonds

Generally, a Non-Resident Holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. Therefore, based on the fact that the Issuer is considered for tax purposes as domiciled abroad, any income (including interest and original issue discount) paid by the Issuer in respect of the bonds issued in favor of Non-Resident Holders should not generally be subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by the Issuer outside of Brazil.

According to Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a Non-Resident Holder, are subject to taxation in Brazil. Given that the Issuer is an entity incorporated under the laws of British Virgin Islands, as well as it is not registered to carry out business in Brazil, it would not qualify as a Brazilian resident for purposes of the Brazilian tax legislation. Thus, and also taking in consideration that the bonds will be issued and registered outside Brazil, the bonds should not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833. Therefore, gains arising from the sale or other disposition of the bonds made outside Brazil by a Non-Resident Holder, other than a branch or a subsidiary of a Brazilian resident, should not be subject to the imposition of Brazilian taxes on capital gains. However, considering the general and unclear scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to confirm whether such interpretation will ultimately prevail in the Brazilian courts. As a result, gains realized by a Non-Resident Holder from the sale or other disposition of the bonds, if the bonds are deemed to be assets located in Brazil may be subject to Brazilian withholding income tax, which we refer to as "WHT," at progressive rates ranging from 15% to 22.5%, or 25% flat if such Non-Resident Holder is located in a low tax jurisdiction ("LTJ"), as defined by Brazilian legislation.

In certain circumstances, if a given transaction is not subject to WHT and tax authorities take the position that the WHT should have been levied, tax authorities may increase the taxable basis of the WHT, as if the amount actually received by the beneficiary outside Brazil had already been reduced by the applicable WHT (gross-up).

A LTJ is a jurisdiction that does not impose any tax on income or which imposes such tax at a maximum statutory rate lower than 20%. In addition, on June 24, 2008, Law No. 11,727 was enacted, establishing that a jurisdiction or country where local legislation imposes restrictions on the disclosure of

shareholding composition or of securities ownership or that does not allow for the identification of the beneficial owner of income attributed to Non-Resident Holder is also considered a LTJ.

Law No. 11,727 also established the concept of a “privileged tax regime”, which is more comprehensive than the tax heaven concept. Pursuant to Law No. 11,727, a “privileged tax regime” is considered to apply to a jurisdiction that meets one of the following requirements: (i) does not tax income or tax it at a maximum rate lower than 20%; (ii) grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction; (iii) does not tax or taxes proceeds generated abroad, or imposes taxes on income generated abroad at a maximum rate lower than 20% or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. Although we believe that the best interpretation of the current tax legislation should lead to the conclusion that the privileged tax regime concept applies solely for purposes of Brazilian tax rules related to transfer pricing, thin capitalization and taxation of profits of foreign affiliates and controlled entities, we are not able to confirm if this privileged tax regime concept will only be applied to such transactions or whether it will also be used to extend the concept of LTJ. If Brazilian tax authorities determine that payments made to a Non-Resident Holder under a privileged tax regime are subject to the same rules applicable to payments made to Non-Resident Holders located in a LTJ, the withholding income tax applicable to such payments could be assessed at a rate up to 25%.

On June 4, 2010, the Brazilian Federal Revenue Service enacted Normative Instruction 1,037 provided for a list of situations in which an entity or individual shall be considered to be under (1) LTJ, and (2) a privileged tax regime.

Subsequently, on December 12, 2014, the Brazilian Revenue Service issued Rule No. 488 narrowing the concept of LTJ and privileged tax regimes to the countries, locations and tax regimes that impose income tax at a maximum rate lower than 17%, provided that the relevant jurisdiction is committed to adopt international standards on tax transparency. Under Brazilian law, the aforementioned commitment is present if the relevant jurisdiction (i) has entered into (or concluded the negotiation of) an agreement or convention authorizing the exchange of information for tax purposes with Brazil and (ii) is committed to the actions discussed in international forums on tax evasion in which Brazil has been participating, such as the Global Forum on Transparency and Exchange of Information. Nevertheless, until now, there has been no amendment to Normative Ruling No. 1,037.

We recommend that prospective purchasers consult their own tax advisors regarding the changes implemented by Normative Ruling 1,037.

Payments on the bonds made by the Guarantors

If the Issuer fails to punctually pay any due amount, including any payment of principal, interest or any other amount that may be due and payable in respect of the bonds, the Guarantors will be required to assume the obligation to pay such due amounts. As there is no specific legal provision dealing with the imposition of the WHT on payments made by Brazilian sources to non-resident beneficiaries under guarantees and no uniform decision from the Brazilian courts, there is a risk that tax authorities may take the position that the funds remitted by the Guarantors to the Non-Resident Holders may be subject to the imposition of the WHT at a general 15% rate, or at a 25% rate, if the Non-Resident Holder is located in a LTJ. In any case, we understand that there are arguments to sustain that (a) payments made under the guarantee structure should be subject to imposition of the WHT according to the nature of the guaranteed payment, in which case only interest and fees should be subject to taxation at the rates of 15% or 25%, in cases of beneficiaries located in LTJ, as defined by the Brazilian legislation; or (b) that payments made under guarantee by Brazilian sources to non-resident beneficiaries should not be subject to the imposition of the WHT, to the extent that they should qualify as a new credit transaction by the Brazilian party to the borrower. This is however a controversial issue, still not decided by the Brazilian Courts.

Please note that different rates may apply if the tax treaty between the country of residence of the Non-Resident Holder and Brazil sets forth a lower WHT rate.

Other taxes

Pursuant to Decree No. 6,306 of December 14, 2007 (as amended), conversion into reais of proceeds received in foreign currency by a Brazilian entity and the conversion into foreign currency of proceeds received in reais are subject to the tax on foreign transaction (“IOF”) levied upon foreign exchange transactions, which we refer to as “IOF/Câmbio”. Currently, IOF/Câmbio rate for almost all foreign currency exchange transactions is 0.38%, including foreign exchange transactions in connection with payments made by a Brazilian guarantor to Non-Brazilian Holders. According to Section 15-B, of the Decree No. 6,306, the liquidation of exchange transactions in connection with foreign financing loans for both inflow and outflow of proceeds thereunder into and from Brazil are subject to IOF/Câmbio at a zero percent rate. However, in the case of the liquidation of foreign exchange transaction (including simultaneous foreign exchange transactions) conducted in connection with the inflow of proceeds to Brazil deriving from foreign loans, including proceeds obtained through the issuance of notes in the international market, with the minimum maturity of less than 180 days, the IOF/Câmbio tax rate is 6%. This 6% rate will be levied with penalties and interest in the case of financings or international bonds with a minimum average term longer than 180 days in which an early redemption occurs in the first 180 days. Notwithstanding the above, the Brazilian government may increase the current IOF/Câmbio rate at any time up to a maximum rate of 25.0%. Any such new rate would only apply to future exchange transactions.

In the event of withholding or deduction for or on account of Brazilian taxes, the Issuer and the Guarantors will, subject to certain exceptions, pay Additional Amounts in respect of such withholding or deduction so that the net amount received by the Non-Resident Holder after such withholding or deduction equals the amount of principal or interest that would have been received in the absence of such withholding or deduction. See “Description of Bonds—Payment of Additional Amounts.”

Generally, there are no transfer, inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the bonds by a Non-Resident Holder, except for gift inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

Certain U.S. Federal Income Tax Considerations

U.S. Holders

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a bond that is, for U.S. federal income tax purposes an individual who is a citizen or resident of the United States or a domestic corporation (or other entity treated as a domestic corporation for U.S. federal income tax purposes) or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the bond, which we refer to as a “U.S. Holder,” as well as certain U.S. federal income tax consequences relevant to a Non-U.S. Holder (as defined below) of the bonds. This summary is for general information only and does not consider all aspects of U.S. federal income tax or other taxes that may be relevant to the acquisition, ownership and disposition of the bonds. It does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction or any aspect of United States federal taxation other than income taxation. This summary is based on laws, regulations, rulings and decisions as of the date hereof, all of which are subject to change, possibly with retroactive effect. There can be no assurance that the U.S. Internal Revenue Service (“IRS”) will not take positions concerning the tax consequences of the acquisition, ownership or disposition of the bonds that are different from those discussed below. This summary deals only with holders that will hold bonds as capital assets (generally, property held for investment), and only if the holder purchased the bonds for cash, at the price indicated on the cover hereof, during the initial offering. This summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, thrifts or other financial institutions or financial services companies, U.S. expatriates, tax-exempt organizations, insurance companies, pension funds, dealers in securities or currencies, regulated investment companies or real estate investment trusts, traders in securities electing mark to market tax accounting, persons subject to the alternative minimum tax, persons that will hold bonds as a position in a “straddle,” or a hedging or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, or persons subject to net United States taxation that have a “functional currency” other than the United States dollar.

If any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes holds the bonds, the U.S. federal income tax treatment generally will depend upon the activities of the partnership and the status of the partners. Prospective purchasers that are partnerships and partners in such partnerships should

consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of the bonds by the partnership.

This discussion does not address the U.S. federal income tax considerations that may be applicable to investors in the bonds that are participants in the Tender Offers. Such holders are urged to consult their own tax advisors.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ALL HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES OF AN INVESTMENT IN THE BONDS, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterization of the bonds

The Company believes that the bonds constitute debt for U.S. federal income tax purposes and intends to treat them as such. The discussion below assumes that the bonds constitute debt for U.S. federal income tax purposes.

Payments of interest

This discussion assumes that the bonds will not be issued with more than a de minimis amount of original issue discount for U.S. federal income tax purposes. Payments of interest on a bond (which may include Additional Amounts) generally will be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder's regular method of tax accounting.

Interest income in respect of the bonds generally will constitute foreign-source "passive category" income for U.S. federal income tax purposes for most U.S. Holders. Subject to generally applicable restrictions and conditions, if any foreign income taxes are withheld on interest payments on the bonds, or on Additional Amounts, a U.S. Holder may be entitled to a foreign tax credit in respect of any such foreign income taxes. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. The rules regarding foreign tax credits and deduction of foreign income taxes are complex. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in respect of foreign income taxes based on their particular circumstances.

Sale or disposition of bonds

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other taxable disposition of a bond in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other taxable disposition (other than amounts attributable to accrued interest, which will be taxed as such) and such U.S. Holder's adjusted tax basis in the bond. Any capital gain or loss recognized by a U.S. Holder upon the sale, exchange, retirement or other taxable disposition of a bond will be long-term capital gain or loss if the U.S. Holder has held the bond for more than one year. Certain U.S. Holders (including individuals but not including corporations) may be eligible for preferential tax rates in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. A U.S. Holder's tax basis in the bond generally will equal the U.S. Holder's cost for the bond. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a bond generally will be United States source gain or loss for U.S. federal income tax purposes.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its interest income and its net gains from the disposition of a bond, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or

trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of this Medicare tax.

Backup withholding and information reporting

A U.S. Holder may be subject to information reporting requirements and “backup withholding” (currently at a rate of 28%) with respect to cash payments of principal and interest on the bonds and on the gross proceeds from dispositions of the bonds made within the United States or through certain U.S.-related financial intermediaries, unless the holder (i) is a corporation or comes within certain other exempt categories and demonstrates this fact when so required, or (ii) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules generally will be allowed as a refundable credit against the U.S. Holder’s U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign financial asset reporting

Under U.S. federal income tax law and applicable Treasury regulations, certain categories of U.S. Holders must file information returns with respect to their investment in certain foreign financial assets, including debt of a foreign corporation, if the aggregate value of all of such assets exceeds US\$50,000. A U.S. Holder should consult its own tax advisor regarding the application of the information reporting rules to the bonds and the application of these rules to its particular situation.

Non-U.S. Holders

Payments of interest

As used herein, the term “Non-U.S. Holder” means a beneficial owner of the bonds that is not, for U.S. federal income tax purposes, a U.S. Holder or a partnership.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of payments of interest (including additional amounts or payments under the guarantees in respect of interest, if any) by the Issuer or its paying agents in respect of a bond, unless such interest is effectively connected with such holder’s conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed base maintained by such holder within the United States). If such interest is effectively connected with such holder’s conduct of a trade or business within the United States, the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional “branch profits tax” in respect of any such effectively connected interest (currently at a 30% rate or, if applicable, a lower tax treaty rate).

Sales or other taxable dispositions

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized in connection with the sale or other taxable disposition of a bond, unless (i) such gain is effectively connected with such holder’s conduct of a trade or business within the United States (and, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base maintained by such holder within the United States), or (ii) such holder is an individual who is present in the United States for at least 183 days in the taxable year of such sale or other taxable disposition and certain other requirements are met. If the first exception applies then the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such gain in the same manner as a U.S. Holder, as described above. If the second exception applies, then the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which such holder’s U.S.-source capital gains exceed such holder’s United States-source capital losses. A Non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional “branch profits tax” in respect of any effectively connected gain (currently at a 30% rate or, if applicable, a lower tax treaty rate).

Information reporting and backup withholding

A Non-U.S. Holder generally will not be subject to backup withholding, if such a holder complies with certification procedures to establish that it is not a United States person.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

The European Union has adopted a Directive regarding the taxation of savings income, which we refer to as the “EU Tax Directive.” Countries that are member states of the European Union, which we refer to as “Member States,” are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria and Luxembourg instead impose a withholding system for a transitional period unless during such period they elect otherwise. The transitional period is to terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding).

The European Commission recently adopted amendments to the EU Tax Directive (“New EU Tax Directive”). The New EU Tax Directive will have to be transposed by Member States before 1 January 2016 and will apply as from 1 January, 2017 and includes the following changes:

- All types of regulated investment funds investing in debt claims will be covered by the New EU Tax Directive;
- Certain life insurance products will be covered by the New EU Tax Directive;
- The concept of ‘residual entities’ will be extended to all EU entities not subject to effective taxation; and
- Look-through rules will apply regarding payments made to “blacklisted” entities, trusts, foundations and similar legal arrangements outside the EU.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended, which we refer to as “ERISA,” imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, the ERISA plans) and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA’s general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA plan’s investments be made in accordance with the documents governing the ERISA plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended, which we refer to as the “Code,” prohibit certain transactions involving the assets of an ERISA plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA plans, the Plans) and certain persons (referred to as “parties in interest” for purposes of ERISA or “disqualified persons” for purposes of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

Governmental plans, non-U.S. plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. For example, domestic governmental and church plans are subject to the exclusive benefit rules of Section 401(a)(2) of the Code which could result in the loss of tax qualified status for improper investments as described in the published regulations and rulings issued by the Internal Revenue Service under Section 401(a)(2) of the Code prior to the enactment of ERISA. Fiduciaries of any such plans should consult with their counsel before purchasing any bonds.

The fiduciary of a Plan that proposes to purchase and hold any bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the Company, the initial purchasers or any of their respective affiliates. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold the bonds on behalf of a Plan, Section 408(b)(17) of ERISA or Prohibited Transaction Class Exemption (“PTCE”) 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. The Company cannot assure you that any exemption will be available with respect to any particular transaction involving the bonds, or, if available, that any particular exemption will cover all possible prohibited transactions. By its purchase of any bonds, the purchaser thereof, and any transferee thereof, will be deemed to have represented and agreed either that (a) it is not and for so long as it holds the bonds will not be an ERISA plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other governmental plan, church plan or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase and holding of the bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. plan, any substantially similar federal, state, local or non-U.S. law) for which an exemption is not available.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any bonds should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of bonds to a Plan is in no respect a representation by the Company or the initial purchasers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

NOTICE TO INVESTORS

General

The bonds and the guarantees have not been, and will not be, registered under the United States Securities Act or any other applicable securities laws, and the bonds may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the bonds are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than United States persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of bonds (other than the initial purchasers in connection with the initial issuance and sale of bonds) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the bonds for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-United States person that is outside the United States and is purchasing the bonds in compliance with Regulation S.
- (2) It acknowledges that the bonds have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except as set forth below.
- (3) It understands and agrees that bonds initially offered in the United States to qualified institutional buyers will be represented by one or more global bonds and that bonds offered outside the United States in reliance on Regulation S will also be represented by one or more global bonds.
- (4) It agrees, on its own behalf and on behalf of any investor account for which it is purchasing the bonds, that it will not resell or otherwise transfer any of such bonds except (a) to the Issuer, (b) to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to an exemption from registration (if available) or (e) pursuant to an effective registration statement under the Securities Act.
- (5) It agrees that it will give to each person to whom it transfers the bonds notice of any restrictions on transfer of such bonds.
- (6) It acknowledges that prior to any proposed transfer of bonds (other than pursuant to an effective registration statement or in respect of bonds sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such bonds may be required to provide certifications relating to the manner of such transfer as provided in the indenture.
- (7) It acknowledges that the trustee, registrar or transfer agent for the bonds will not be required to accept for registration transfer of any bonds acquired by it, except upon presentation of evidence satisfactory to the Issuer and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.
- (8) It acknowledges that if it is a purchaser in a sale that occurs outside of the United States within the meaning of Regulation S, the above restrictions on resale will apply until the expiration of the "40-day distribution compliance period" within the meaning of Rule 903 of Regulation S, and any offer or sale of the bonds shall not be made by it to a United States person or for the benefit or account of a United States person within the meaning on Rule 902 under the Securities Act.

- (9) It acknowledges that the Issuer, the Guarantors, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the bonds are no longer accurate, it will promptly notify the Issuer, the Guarantors and the initial purchasers. If it is acquiring the bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.
- (10) It agrees either that (a) it is not and for so long as it holds the bonds will not be an ERISA plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other governmental plan, church plan or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase and holding of the bonds will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. plan, any substantially similar federal, state, local or non-U.S. law) for which an exemption is not available.

The following is the form of restrictive legend which will appear on the face of the Rule 144A global bond, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This bond has not been registered under the United States Securities Act of 1933, as amended (the ‘Securities Act’), or any other securities laws. The holder hereof, by purchasing this bond, agrees that this bond or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (i) to the Issuer, (ii) so long as this bond is eligible for resale pursuant to Rule 144A under the Securities Act (‘Rule 144A’), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction and in accordance with the transfer restrictions contained in the indenture under which this bond was issued. The holder hereof, by purchasing this bond, represents and agrees that it will notify any purchaser of this bond from it of the resale restrictions referred to above.

The foregoing legend may be removed from this bond only at the option of the Issuer.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global bond and which will be used to notify transferees of the foregoing restrictions on transfer:

“This bond has not been registered under the United States Securities Act of 1933, as amended (the ‘Securities Act’), or any other securities laws. The holder hereof, by purchasing this bond, agrees that neither this bond nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this bond after 40 days beginning on and including the later of (a) the date on which the bonds are offered to persons other than distributions (as defined in Regulation S under the Securities Act) and (b) the original issue date of this bond.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global bonds and certificated bonds, see “Form of Bonds.”

ENFORCEMENT OF CIVIL LIABILITIES

BVI

The Issuer is a company incorporated with limited liability under the laws of the British Virgin Islands. Each of the Guarantors is a corporation organized under the laws of Brazil. Substantially all of the Company's directors and officers and independent accountants and substantially all of the directors and officers and independent accountants of the other Guarantors, and some of the advisors named herein, reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Guarantors are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil or the British Virgin Islands upon such persons, or to enforce against them or against the Company judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the bonds, the Company will (i) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the bonds and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Bonds."

The Issuer and the Guarantors have been advised by their British Virgin Islands counsel, Maples and Calder, that there is uncertainty as to whether the courts of the British Virgin Islands would (1) recognize or enforce judgments of United States courts obtained against the Issuer or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or (2) be competent to hear original actions brought in the British Virgin Islands, against the Issuer or such persons, predicated upon the securities laws of the United States or any state thereof.

Maples and Calder has further advised the Issuer and the Guarantors that a final and conclusive judgment in federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the courts of the British Virgin Islands under the common law doctrine of obligation.

Maples and Calder has advised the Issuer and the Guarantors that the courts of the British Virgin Islands will recognize and enforce a foreign judgment without re-examining the merits of that judgment so long as:

- it is final;
- the court had jurisdiction over the defendant according to British Virgin Islands conflict of law rules and the defendant was duly served with process;
- the judgment given by such court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the defendant;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to the rules of public policy of the British Virgin Islands courts; and
- the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Nevertheless, neither the Issuer nor any of the Guarantors knows whether you would be able to enforce liabilities based on the federal securities laws of the United States in the British Virgin Islands. The Issuer and the Guarantors also do not know whether British Virgin Islands courts would enforce judgments of United States courts based on the civil liability provisions of the federal securities laws of the United States.

Brazil

We have been advised by our Brazilian counsel, that a final conclusive judgment of non-Brazilian courts for the payment of money may be enforced in Brazil, subject to certain requirements as described below. A judgment against either us our Directors, our Officers or the Issuer issued by a foreign court would be enforceable in Brazil without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*—STJ). That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the non-Brazilian courts;
- is issued by a competent court after proper service of process on the parties (provided that, if made in Brazil, service of process must be effected in accordance with Brazilian law), or after sufficient evidence of the parties' absence as required by applicable law;
- is not subject to appeal in the jurisdiction where rendered;
- is not in conflict with a previous final and binding (*res judicata*) judgment on the same matter and involving the same parties issued in Brazil;
- is authenticated by the Brazilian consulate with jurisdiction over the place the judgment is rendered. If such foreign judgment was authenticated in a country that is signatory of the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents dated as of October 5, 1961, or the Apostille Convention, authentication by a Brazilian Diplomatic Office or Consulate is not required;
- is translated into Portuguese by a certified sworn translator; and
- does not violate Brazilian public policy (as set forth in Brazilian law).

The confirmation process described above may be time consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil.

We have also been advised that civil actions may be brought with Brazilian courts in connection with this offering memorandum based solely on the federal securities laws of the United States and that Brazilian courts may enforce such liabilities in such actions against us (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy), national sovereignty or public morality and that Brazilian courts can assert jurisdiction over the matter being litigated.

We have been further advised that a plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil or is outside Brazil during the course of the litigation in Brazil and who does not own real property in Brazil must post a bond to guarantee the payment of the defendant's legal fees and court expenses, except in case of (i) enforcement proceedings based on a certain non-disputable documents as determined by the court (which do not include the bonds issued hereunder) that may be enforced under Brazilian law (*execusao de título executivo extrajudicial*); (ii) enforcement of a judgment; (iii) counterclaims; and (iv) when an international treaty signed by Brazil dismisses the obligation to post a bond, as established under Article 83, 1st paragraph of the Brazilian Code of Civil Procedure.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations under the bonds, we would not be required to discharge our obligations in a currency other than *reais*. Any judgment obtained against us in Brazilian courts related to any payment obligations under the bonds would be expressed in *reais*.

PLAN OF DISTRIBUTION

Overview

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, the initial purchasers have severally agreed to purchase, and the Issuer has agreed to sell to the initial purchasers, the following respective principal amount of bonds listed opposite their name below:

Joint Bookrunners	Principal Amount of the bonds to be Purchased
Citigroup Global Markets Inc.	US\$325,000,000
Santander Investment Securities Inc.	US\$325,000,000
Total	US\$650,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase the bonds are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the bonds if it purchases any of the bonds.

The Issuer and the Guarantors have been advised that the initial purchasers propose to resell the bonds at the offering price set forth on the cover page of this offering memorandum within the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See “Notice to Investors.” The price at which the bonds are offered may be changed at any time without notice. The initial purchasers may offer and sell the bonds through their respective affiliates.

The bonds and the guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Notice to Investors.”

Accordingly, in connection with sales outside the United States, the initial purchasers have agreed that, except as permitted by the purchase agreement and set forth in the “Notice to Investors,” they will not offer or sell the bonds within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells bonds during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of bonds within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Issuer and the Guarantors have agreed that, for a period of 90 days from the date of this offering memorandum, they will not, without the prior written consent of the initial purchasers, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of any other debt securities of or guaranteed by them or securities of or guaranteed by them that are convertible into, or exchangeable for, the bonds or other debt securities (or publicly disclose the intention to make any such issuance, sale, offer, agreement, grant or disposal).

The bonds will constitute a new class of securities with no established trading market. The bonds are expected to be listed on the Euro MTF. However, neither the Issuer nor any of the Guarantors can assure you that the prices at which the bonds will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the bonds will develop and continue after this offering. The initial purchasers have advised the Issuer and the Guarantors that they currently intend to make a market in the bonds. However, the initial purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the bonds at any time without notice. In addition, market-making activity will be

subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, neither the Issuer nor any of the Guarantors can assure you as to the liquidity of or the trading market for the bonds.

In connection with this offering, the initial purchasers may purchase and sell bonds in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of bonds in excess of the principal amount of bonds to be purchased by the initial purchasers in this offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of bonds made for the purpose of preventing or retarding a decline in the market price of the bonds while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time but they must end no later than the earlier of 30 days after the issue date of the bonds and 60 days after the date of the allotment of the bonds.

In addition, the initial purchasers have performed investment banking, commercial banking and advisory services for the Company from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantors and their affiliates in the ordinary course of their business.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If any of the initial purchasers or their affiliates has a lending relationship with the Issuer or its affiliates, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to the Issuer or its affiliates consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or its affiliates securities, including potentially the bonds offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the bonds offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer and the Guarantors have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Selling Restrictions

The bonds are offered for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.

The bonds have not been offered, sold or delivered and will not be offered, sold or delivered, directly or indirectly, and this offering memorandum or any information incorporated by reference herein or any other offering material relating to the bonds, has not been and will not be distributed in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Notice to Investors in Brazil

The bonds have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets. The bonds have not been, and will not be, registered with the CVM. The bonds may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations. Any public offering or distribution, as defined under Brazilian laws and regulations, of the bonds in Brazil is not legal without prior registration under Law No.

6,385, dated as of December 7, 1976, as amended, and Instruction No. 400, issued by the CVM on December 29, 2003, as amended. Documents relating to the offering of the bonds, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the bonds is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the bonds to the public in Brazil.

Notice to Investors in the European Economic Area

In relation to each Member State of the European Economic Area, each initial purchase has represented and agreed that with effect from and including the date on which the Prospectus Directive was implemented in that Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of bonds which are the subject of the offering contemplated by this offering memorandum to the public in that Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such bonds to the public in that Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the agents; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of bonds shall require the Company or any agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

In this section, the expression an offer of bonds to the public in relation to any bonds in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the bonds to be offered so as to enable an investor to decide to purchase or subscribe the bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression Prospectus Directive means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

This offering memorandum has been prepared on the basis that any offer of bonds in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of bonds.

Notice to Investors in the United Kingdom

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Each initial purchaser represents and warrants that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer;
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the bonds in, from or otherwise involving the United Kingdom; and

(c) in relation to any bonds which have a maturity of less than one year from their date of issue, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

Notice to Investors in Hong Kong

Each initial purchaser has represented and agreed that the bonds may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Investors in Singapore

Each initial purchaser has represented and agreed that the offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the bonds may not be circulated or distributed, nor may the bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, Securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (however described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the bonds pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) when the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Notice to Investors in Chile

This private offer commences on October 4, 2017 and it avails itself of the General Regulation No. 336 of the Superintendence of Securities and Insurance. This offer relates to securities not registered with the Securities Registry or the Registry of Foreign Securities of the Superintendence of Securities and Insurance, and therefore such securities are not subject to oversight by the latter. Being unregistered securities, there is no obligation on the issuer to provide public information in Chile regarding such securities. These securities may not be subject to a public offer until they are registered in the corresponding Securities Registry.

ESTA OFERTA PRIVADA SE INICIA EL DÍA 4 DE OCTUBRE, 2017 Y SE ACOGE A LAS DISPOSICIONES DE LA NORMA DE CARÁCTER GENERAL N° 336 DE LA SUPERINTENDENCIA DE VALORES Y SEGUROS. ESTA OFERTA VERSA SOBRE VALORES NO INSCRITOS EN EL REGISTRO DE VALORES O EN EL REGISTRO DE VALORES EXTRANJEROS QUE LLEVA LA SUPERINTENDENCIA DE VALORES Y SEGUROS, POR LO QUE TALES VALORES NO ESTÁN SUJETOS A LA FISCALIZACIÓN DE ÉSTA. POR TRATAR DE VALORES NO INSCRITOS NO EXISTE LA OBLIGACIÓN POR PARTE DEL EMISOR DE ENTREGAR EN CHILE INFORMACIÓN PÚBLICA RESPECTO DE LOS VALORES SOBRE LOS QUE VERSA ESTA OFERTA. ESTOS VALORES NO PODRÁN SER OBJETO DE OFERTA PÚBLICA MIENTRAS NO SEAN INSCRITOS EN EL REGISTRO DE VALORES CORRESPONDIENTE.

Notice to Investors in Canada

The bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding agent conflicts of interest in connection with this offering.

Notice to Investors in Japan

The bonds offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. The bonds have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Investors in Republic of Korea

The bonds have not been and will not be registered under the Financial Investment Services and Capital Markets Act and the decrees and regulations thereunder (the "FSCMA") and the bonds have been and will be offered in Korea as a private placement under the FSCMA. None of the bonds may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder (the "FETL"). For a period of one year from the issue date of the bonds, any acquirer of the bonds who was solicited to buy the bonds in Korea is prohibited from transferring any of the bonds to another person in any way other than as a whole to one transferee. Furthermore, the purchaser of the bonds shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the bonds.

Notice to Investors in Taiwan

The bonds have not been, and will not be, registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan, the Republic of China ("Taiwan") and/or other regulatory authority of Taiwan pursuant to applicable securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Taiwan Securities and Exchange Act or relevant laws and regulations that requires a registration, filing or

approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan. No person or entity in Taiwan is authorized to offer, sell or distribute or otherwise intermediate the offering of the bonds or the provision of information relating to this offering memorandum and the accompanying prospectus.

The bonds may be made available to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan, but may not be issued, offered sold or resold in Taiwan, unless otherwise permitted by Taiwan laws and regulations. No subscription or other offer to purchase the bonds shall be binding on Taiwan resident investors until received and accepted by such Taiwan resident investors or any agent thereof outside of Taiwan (the “Place of Acceptance”), and the purchase/sale contract arising therefrom shall be deemed a contract entered into in the Place of Acceptance.

Notice to Investors in People’s Republic of China (excluding Hong Kong, Macau and Taiwan)

The bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China, or the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by all relevant laws and regulations of the PRC.

This offering memorandum (i) has not been filed with or approved by the PRC authorities and (ii) does not constitute an offer to sell, or the solicitation of an offer to buy, any bonds in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The bonds may not be offered, sold or delivered, or offered, sold or delivered to any person for reoffering or resale or redelivery, in any such case directly or indirectly (i) by means of any advertisement, invitation, document or activity which is directed at, or the contents of which are likely to be accessed or read by, the public in the PRC, or (ii) to any person within the PRC, other than in full compliance with the relevant laws and regulations of the PRC.

Notice to Investors in the British Virgin Islands

The bonds may not be offered or sold in the British Virgin Islands, except in circumstances that do not constitute a public offering or distribution to the public under the laws and regulations of the British Virgin Islands.

LEGAL MATTERS

The validity of the bonds offered and sold in this offering will be passed upon for the Issuer by Greenberg Traurig, LLP, and for the initial purchasers by Shearman & Sterling LLP. Certain matters of Brazilian law relating to the bonds and the guarantees will be passed upon for the Issuer by Barbosa Mussnich Aragão Advogados, Brazilian Counsel to the Issuer. Stocche, Forbes, Padis, Filizzola, Passaro, Meyer e Refinetti Advogados, São Paulo, Brazil, will pass upon certain matters of Brazilian law relating to the bonds and the guarantees for the initial purchasers. Certain matters of British Virgin Islands law relating to the bonds will be passed upon for the Issuer by Maples and Calder.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company's consolidated financial statements as of December 31, 2016 and December 31, 2015 and for each of the three years in the period ended December 31, 2016, and the effectiveness of internal control over financial reporting as of December 31, 2016, incorporated in this offering memorandum by reference to the Annual Report on Form 20-F for the year ended December 31, 2016, have been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report which is incorporated by reference herein.

With respect to the unaudited condensed consolidated interim financial statements as of and for the six-month periods ended June 30, 2017, appearing in the Company's 2017 Interim Financial Information, which has been included in this offering memorandum, KPMG Auditores Independentes, independent accountants, have applied limited procedures in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". However, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their review on such information should be restricted in light of the limited nature of the review procedures applied. Their report includes an emphasis of matter paragraph drawing attention to note 14 of the interim financial statements with respect to Zelotes operations. KPMG's report also states that the balance sheet included in the interim financial statements was audited by other independent auditors and the respective statements of profit or loss and comprehensive income for the three- and six-month periods ended June 30, 2016 and changes in equity and cash flows for the six-month period ended June 30, 2016 were reviewed by other independent auditors.

LISTING AND GENERAL INFORMATION

1. The bonds have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP, ISIN and Common Code numbers for the bonds are as follows:

	Restricted Global Bond	Regulation S Global Bond
CUSIP	37373W AD2	G3925D AD2
ISIN	US37373WAD20	USG3925DAD24
Common Code	170482433	170460391

2. The Issuer has applied to list the bonds on the Luxembourg Stock Exchange.

3. Copies of the Company's audited annual financial statements for its two most recently ended fiscal years and its latest unaudited quarterly financial statements may be obtained at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent. The Issuer does not separately provide financial statements. Copies of the Issuer's by-laws, as well as the indenture (including forms of bonds and the guarantee), will be available at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

4. Except as disclosed in this offering memorandum, there has been no material adverse change in the Company's financial position since December 31, 2016, the date of the latest audited financial statements incorporated by reference in this offering memorandum. Except as disclosed herein, there has been no material adverse change in the prospects of the Issuer and the Guarantors since December 31, 2016.

5. Except as disclosed in this offering memorandum, neither the Company nor the Issuer is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as the Company and the Issuer are aware is any such litigation or arbitration pending or threatened.

6. Copies of the Issuer's certificate of incorporation and by-laws and the *estatutos sociais* (by-laws) of each Guarantor, as well as the indenture (including forms of the bonds and the guarantee), will be available for inspection at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

7. So long as the bonds are listed on the Luxembourg Stock Exchange, the Issuer shall appoint and maintain a paying agent in Luxembourg, where the bonds may be presented or surrendered for payment or redemption, in the event that the global bonds are exchanged for definitive certificated bonds. In addition, in the event that the global bonds are exchanged for definitive certificated bonds, announcement of such exchange shall be made through the Luxembourg Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive certificated bonds, including details of the paying agent in Luxembourg.

8. In addition to being mailed to the holders, so long as the bonds are listed on the Luxembourg Stock Exchange, copies of all notices to the holders will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. Under certain circumstances the Company may apply to remove the bonds from listing on the Luxembourg Stock Exchange.

9. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, no transaction made on the Luxembourg Stock Exchange in respect of the bonds shall be cancelled.

10. The issuance of US\$500,000,000 aggregate principal amount of the bonds was authorized by the Issuer's board of directors on October 4, 2017. The execution of the guarantee relating to such bonds was authorized by the board of directors of the Company and each of the other Guarantors on October 4, 2017. The increase in offer size was approved by the board of directors of each of the Issuer, the Company and the other Guarantors on October 23, 2017.

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INTERIM FINANCIAL INFORMATION

**Condensed consolidated unaudited interim financial statements of Gerdau S.A. as of June 30, 2017
(prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting)**

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Independent Auditors' Report on Review of Interim Financial Statements

To Directors and Shareholders of
Gerdau S.A.
Rio de Janeiro - RJ

Introduction

We have reviewed the accompanying June 30, 2017 condensed consolidated interim financial statements of Gerdau S.A. ("the Company"), which comprise:

- the condensed consolidated balance sheet as at June 30, 2017;
- the condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2017;
- the condensed consolidated statements of changes in equity for the six-month period ended June 30, 2017;
- the condensed consolidated statements of cash flows for the six-month period ended June 30, 2017; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at June 30, 2017 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Emphasis of matter

We draw attention to note 14 of the condensed consolidated interim financial statements, which describes information about the events and actions taken by the Company in response to the so-called Zelotes Operation, including ongoing investigations and potential developments. Our conclusion is not modified in relation to this matter.

Other Matter

The corresponding balances presented in the condensed consolidated balance sheet at December 31, 2016 were audited by other independent auditors, who issued an unqualified report dated February 21, 2017, and the corresponding balances presented in the condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2016, and the condensed consolidated statements of changes in equity and cash flows for the six-month period ended June 30, 2016, were reviewed by other independent auditors who issued an unqualified report dated August 09, 2016.

Porto Alegre, October 3, 2017

KPMG Auditores Independentes
CRC SP-014428/F-7

Cristiano Jardim Seguecio
Accountant CRC SP-244525/O-9 T-RS

GERDAU S.A.
CONSOLIDATED BALANCE SHEETS
In thousands of Brazilian reais (R\$)
(Unaudited)

	Note	June 30, 2017	December 31, 2016
CURRENT ASSETS			
Cash and cash equivalents	4	4,305,434	5,063,383
Short-term investments			
Held for Trading	4	1,124,769	1,024,411
Trade accounts receivable - net	5	3,920,408	3,576,699
Inventories	6	6,995,222	6,332,730
Tax credits		432,951	504,429
Income and social contribution taxes recoverable		442,829	623,636
Unrealized gains on financial instruments	13	-	2,557
Other current assets		674,381	668,895
		<u>17,895,994</u>	<u>17,796,740</u>
NON-CURRENT ASSETS			
Tax credits		43,299	56,703
Deferred income taxes		3,047,007	3,407,230
Unrealized gains on financial instruments	13	4,050	10,394
Related parties	15	54,052	57,541
Judicial deposits	14	1,985,057	1,861,784
Other non-current assets		528,056	447,260
Prepaid pension cost		11,517	56,797
Investments in associates and jointly-controlled entities	8	1,343,010	798,844
Goodwill	10	9,586,600	9,470,016
Other Intangibles		1,174,432	1,319,941
Property, plant and equipment, net		<u>18,502,051</u>	<u>19,351,891</u>
		<u>36,279,131</u>	<u>36,838,401</u>
TOTAL ASSETS		<u><u>54,175,125</u></u>	<u><u>54,635,141</u></u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

GERDA S.A.
CONSOLIDATED BALANCE SHEETS
In thousands of Brazilian reais (R\$)
(Unaudited)

	<u>Note</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
CURRENT LIABILITIES			
Trade accounts payable		3,062,395	2,743,818
Short-term debt	11	4,186,259	4,458,220
Taxes payable		256,545	341,190
Income and social contribution taxes payable		60,025	74,458
Payroll and related liabilities		415,391	464,494
Employee benefits		395	409
Environmental liabilities		18,502	17,737
Unrealized losses on financial instruments	13	-	6,584
Other current liabilities		608,645	514,599
		<u>8,608,157</u>	<u>8,621,509</u>
NON-CURRENT LIABILITIES			
Long-term debt	11	15,646,225	15,959,590
Debentures	12	131,797	165,423
Deferred income taxes		292,947	395,436
Provision for tax, civil and labor liabilities	14	1,079,894	2,239,226
Environmental liabilities		70,284	66,069
Employee benefits		1,451,576	1,504,394
Obligations with FIDC	16	1,076,751	1,007,259
Other non-current liabilities		471,717	401,582
		<u>20,221,191</u>	<u>21,738,979</u>
EQUITY			
Capital	17	19,249,181	19,249,181
Treasury stocks		(77,550)	(98,746)
Capital reserves		11,597	11,597
Retained earnings		4,650,781	3,763,207
Operations with non-controlling interests		(2,873,335)	(2,873,335)
Other reserves		4,122,574	3,976,232
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		<u>25,083,248</u>	<u>24,028,136</u>
NON-CONTROLLING INTERESTS			
		<u>262,529</u>	<u>246,517</u>
EQUITY			
		<u>25,345,777</u>	<u>24,274,653</u>
TOTAL LIABILITIES AND EQUITY			
		<u>54,175,125</u>	<u>54,635,141</u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

GERDAU S.A.
CONSOLIDATED STATEMENTS OF INCOME
In thousands of Brazilian reais (R\$)
(Unaudited)

		For the three-month period ended		For the six-month period ended	
	Note	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
NET SALES		9,165,853	10,248,778	17,624,517	20,333,289
Cost of sales	20	(8,229,142)	(9,165,474)	(16,033,919)	(18,437,307)
GROSS PROFIT		936,711	1,083,304	1,590,598	1,895,982
Selling expenses	20	(133,297)	(175,609)	(271,743)	(389,941)
General and administrative expenses	20	(287,139)	(401,965)	(588,186)	(831,519)
Other operating income	20	70,968	54,833	139,934	102,057
Other operating expenses	20	(32,246)	(26,519)	(37,702)	(33,928)
Results in operations with subsidiaries	3.4	(72,478)	(105,048)	(72,478)	(105,048)
Reversal of contingent liabilities, net	14	-	-	929,711	-
Equity in earnings of unconsolidated companies	8	(2,429)	(109)	(3,239)	(7,690)
INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES		480,090	428,887	1,686,895	629,913
Financial income	21	44,087	45,022	125,914	120,812
Financial expenses	21	(453,780)	(484,200)	(917,017)	(1,009,302)
Exchange variations, net	21	(96,389)	433,186	(21,351)	942,616
Reversal of monetary update of contingent liabilities, net	14	-	-	369,819	-
Gain and losses on financial instruments, net	21	1,125	(16,700)	(8,606)	(38,220)
INCOME (LOSS) BEFORE TAXES		(24,867)	406,195	1,235,654	645,819
Current	7	(96,395)	(47,146)	(145,927)	(80,454)
Deferred	7	197,779	(279,840)	(189,666)	(471,970)
Income and social contribution taxes		101,384	(326,986)	(335,593)	(552,424)
NET INCOME		<u>76,517</u>	<u>79,209</u>	<u>900,061</u>	<u>93,395</u>
ATTRIBUTABLE TO:					
Owners of the parent		75,023	73,078	890,364	81,773
Non-controlling interests		<u>1,494</u>	<u>6,131</u>	<u>9,697</u>	<u>11,622</u>
		<u>76,517</u>	<u>79,209</u>	<u>900,061</u>	<u>93,395</u>
Basic earnings per share - preferred and common - (R\$)	18	0.04	0.04	0.52	0.05
Diluted earnings per share - preferred and common - (R\$)	18	0.04	0.04	0.52	0.05

GERDA S.A.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
In thousands of Brazilian reais (R\$)
(Unaudited)

	For the three-month period ended		For the six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income for the period	76,517	79,209	900,061	93,395
Items that may be reclassified subsequently to profit or loss				
Other comprehensive income (losses) from associates and jointly-controlled entities	58,299	(130,290)	60,449	(238,650)
Cumulative translation adjustment	726,191	(2,598,847)	335,796	(5,113,825)
Recycling of cumulative translation adjustment to net income	(76,430)	(970,276)	(76,430)	(970,276)
Unrealized (Losses)/Gains on net investment hedge	(355,743)	880,845	(141,229)	1,800,061
Cash flow hedges:				
Unrealized Gains (Losses) on cash flow hedges	1,085	(2,364)	(6,578)	(45)
	353,402	(2,820,932)	172,008	(4,522,735)
Total comprehensive income (loss) for the period, net of tax	429,919	(2,741,723)	1,072,069	(4,429,340)
Total comprehensive income (loss) attributable to:				
Owners of the parent	420,896	(2,729,206)	1,055,437	(4,406,371)
Non-controlling interests	9,023	(12,517)	16,632	(22,969)
	429,919	(2,741,723)	1,072,069	(4,429,340)

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

GERDAU S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 In thousands of Brazilian reais (R\$)
 (Unaudited)

	Attributed to parent company											Other	
	Retained earnings							Operations with non-controlling interests	Gains and losses on net investment hedge	Gains and losses on financial instruments	Cumulative translation adjustment	Pension Plan	Stock options
	Capital	Treasury stocks	Capital Reserve	Legal reserve	Tax Incentives Reserve	Investments and working capital reserve	Retained earnings						
Balance as of January 1, 2016	19.249.181	(383.363)	11.597	628.228	611.531	5.668.300	-	(2.877.488)	(6.083.288)	16.084	15.021.878	(314.981)	-
2016 Changes in Equity													
Net income	-	-	-	-	-	-	81.773	-	-	-	-	-	-
Other comprehensive income (loss) recognized in the period	-	-	-	-	-	-	-	-	1.799.571	(37)	(6.287.678)	-	-
Total comprehensive income (loss) recognized in the period	-	-	-	-	-	-	81.773	-	1.799.571	(37)	(6.287.678)	-	-
Long term incentive plan cost recognized in the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term incentive plan exercised during the period	-	6.971	-	-	-	(4.146)	-	-	-	-	-	-	-
Assignment of preferred shares	-	369.499	-	-	-	(163.699)	-	-	-	-	-	-	-
Effects of interest changes in subsidiaries	-	-	-	-	-	-	-	4.153	-	-	-	-	-
Balance as of June 30, 2016 (Note 17)	19.249.181	(6.893)	11.597	628.228	611.531	5.500.455	81.773	(2.873.335)	(4.283.717)	16.047	8.734.200	(314.981)	-
Balance as of January 1, 2017	19.249.181	(98.746)	11.597	628.228	611.531	2.523.448	-	(2.873.335)	(4.404.436)	16.323	8.532.065	(357.072)	-
2017 Changes in Equity													
Net income	-	-	-	-	-	-	890.364	-	-	-	-	-	-
Other comprehensive income (loss) recognized in the period	-	-	-	-	-	-	-	-	(141.245)	(6.557)	312.875	-	-
Total comprehensive income (loss) recognized in the period	-	-	-	-	-	-	890.364	-	(141.245)	(6.557)	312.875	-	-
Long term incentive plan cost recognized in the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term incentive plan exercised during the period	-	21.196	-	-	-	(2.790)	-	-	-	-	-	-	-
Effects of interest changes in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends/interest on capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as of June 30, 2017 (Note 17)	19.249.181	(77.550)	11.597	628.228	611.531	2.520.658	890.364	(2.873.335)	(4.545.681)	9.766	8.844.940	(357.072)	-

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

GERDA S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands of Brazilian reais (R\$)
(Unaudited)

		For the six-month period ended	
	Note	June 30, 2017	June 30, 2016
Cash flows from operating activities			
Net income for the period		900,061	93,395
Adjustments to reconcile net income for the period to net cash provided by operating activities:			
Depreciation and amortization	20	1,054,233	1,298,492
Equity in earnings of unconsolidated companies	8	3,239	7,690
Exchange variation, net	21	21,351	(942,616)
Loss (Gains) on financial instruments, net	21	8,606	38,220
Post-employment benefits		103,692	111,614
Long term incentive plan		17,777	20,786
Income and social contribution taxes	7	335,593	552,424
Gains on disposal of property, plant and equipment, net		(61,456)	(2,085)
Results in operations with subsidiaries	3.4	72,478	105,048
Allowance for doubtful accounts		7,738	51,656
Provision for tax, labor and civil claims		141,481	147,538
Reversal of contingent liabilities, net	14	(929,711)	-
Interest income on trading securities		(44,608)	(40,635)
Interest expense on loans	21	703,772	771,580
Reversal of monetary update of contingent liabilities, net	14	(369,819)	-
Interest on loans with related parties	15	-	2,532
(Reversal) Provision for net realizable value adjustment in inventory, net	6	(12,884)	(48,380)
		<u>1,951,543</u>	<u>2,167,259</u>
Changes in assets and liabilities			
Increase in trade accounts receivable		(332,409)	(384,706)
(Increase) Decrease in inventories		(768,705)	398,820
Increase in trade accounts payable		314,644	176,439
Increase in other receivables		(212,125)	(93,070)
Decrease in other payables		(124,381)	(226,895)
Dividends from associates and jointly-controlled entities		20,985	36,839
Purchases of trading securities		(490,074)	(367,631)
Proceeds from maturities and sales of trading securities		<u>441,968</u>	<u>458,425</u>
Cash provided by operating activities		<u>801,446</u>	<u>2,165,480</u>
Interest paid on loans and financing		(728,383)	(600,642)
Income and social contribution taxes paid		<u>(56,279)</u>	<u>(92,006)</u>
Net cash provided by operating activities		<u>16,784</u>	<u>1,472,832</u>
Cash flows from investing activities			
Additions to property, plant and equipment	9	(431,850)	(811,496)
Proceeds from sales of property, plant and equipment, investments and other		415,524	2,969
Additions to other intangibles		(16,619)	(41,730)
Capital increase in jointly-controlled entity		<u>(178,670)</u>	<u>-</u>
Net cash used in investing activities		<u>(211,615)</u>	<u>(850,257)</u>
Cash flows from financing activities			
Dividends and interest on capital paid		(2,282)	-
Proceeds from loans and financing		349,584	1,032,953
Repayment of loans and financing		(917,767)	(2,798,441)
Intercompany loans, net		<u>3,489</u>	<u>6,271</u>
Net cash used in financing activities		<u>(566,976)</u>	<u>(1,759,217)</u>
Exchange variation on cash and cash equivalents		3,858	(702,014)
Decrease in cash and cash equivalents		(757,949)	(1,838,656)
Cash and cash equivalents at beginning of period		<u>5,063,383</u>	<u>5,648,080</u>
Cash and cash equivalents at end of period		<u>4,305,434</u>	<u>3,809,424</u>

NOTE 1 - GENERAL INFORMATION

Gerdau S.A. is a publicly traded corporation (*sociedade anônima*) with its corporate domicile in the city of Rio de Janeiro, Brazil. Gerdau S.A. and subsidiaries (collectively referred to as the “Company”) is a leading producer of long steel in the Americas and one of the largest suppliers of special steel in the world. In Brazil, the Company also produces flat steel and iron ore, activities which expands the product mix and make its operations even more competitive. It is the largest recycler in Latin America and around the world it transforms each year millions of tons of scrap into steel, reinforcing its commitment to sustainable development of the regions where it operates. Gerdau is listed on the São Paulo, New York and Madrid stock exchanges.

The Condensed Consolidated Interim Financial Statements of the Company were approved by the Management on October 3, 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1 - Basis of Presentation

The Company's Condensed Consolidated Interim Financial Statements for the three-month and six-month periods ended on June 30, 2017 have been prepared in accordance with International Accounting Standard (IAS) N° 34, which establishes the content of condensed interim financial statements. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements of Gerdau S.A., as of December 31, 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board - IASB.

The preparation of the Condensed Consolidated Interim Financial Statements in accordance with IAS 34 requires Management to make accounting estimates. The Condensed Consolidated Interim Financial Statements have been prepared using the historical cost as its basis, except for the valuation of certain financial instruments, which are measured at fair value.

The same accounting policies and methods of calculation were used in these Condensed Consolidated Interim Financial Statements as they were applied in the Consolidated Financial Statements as of December 31, 2016.

2.2 – New IFRS and Interpretations of the IFRIC (International Financial Reporting Interpretations Committee)

The IASB releases of IFRS standards with effect for periods beginning in 2017 had no impact in the Company's Financial Statements. Some new IASB accounting procedures and IFRIC interpretations were issued and/or reviewed and have their mandatory adoption for the year 2018 and/or after. The Company is assessing the adoption impact of these standards in its Consolidated Financial Statements.

- IFRS 9 - Financial Instruments. Has the objective of replacing the standard IAS 39 and addresses some application questions and introduced a ‘fair value through other comprehensive income’ measurement category for particular simple debt instruments, besides adding the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets, commitments to extend credit and hedge accounting. This standard is effective for annual reporting periods beginning on or after January 1, 2018. The Company believes that the new guidance of IFRS 9 will not bring a significant impact in its classification and measurement of financial assets and liabilities, as well as on the hedge operations.

- IFRS 15 - Revenue from Contracts with Customers and subsequently the issuance of document for clarification on this standard. The objective of IFRS 15 is to establish the principles of revenue recognition and disclosure of information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer, as well as the subsequent document issued, which clarifies on important matters of this standard. This standard is effective for years beginning on or after January 1, 2018. The Company's evaluation process of all the impacts of the new standard is ongoing and in a preliminary and non-conclusive stage. This preliminary assessment of the impacts on the measurement and timing for revenue recognition from contracts with our customers does not

indicate significant changes or impacts in the Company's Financial Statements. The company is currently in the process of evaluating other aspects of the application of the standard to complete the analysis.

- IFRS 16 - Lease. Establishes aspects of recognition, measurement and disclosure of leases. This standard is effective for fiscal years beginning on or after January 1, 2019. The Company is evaluating the impacts on its Financial Statements of the register of its operating leasing operations, however does not expect significant impacts in relation to total property, plant and equipment and existing debt.
- Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions. It addresses changes in some paragraphs to better clarify the application of the standard. This change in the standard is effective for years beginning on or after January 1, 2018.
- IFRIC 23 – Uncertainty over Income Tax Treatments. Establishes aspects of recognition and measurement of the IAS 12 when there are uncertainties about the treatment of income tax related to tax assets or liabilities and current or deferred taxes, based on taxable income, tax losses, taxable bases, unused tax losses, unused tax credits and tax rates. This interpretation is effective for fiscal years beginning on or after January 1, 2019. The Company is evaluating the impacts on its Financial Statements

NOTE 3 – CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3.1 - Subsidiaries

The Company did not have material changes of interest in subsidiaries for the period ended on June 30, 2017, when compared to those existing on December 31, 2016, except for the operation described in note 3.4.

3.2 - Jointly-Controlled Entities

The Company did not have material changes of interest in jointly controlled entities for the period ended on June 30, 2017, when compared to those existing on December 31, 2016, except for the operations of creation of the jointly controlled entities (i) Gerdau Summit Aços Fundidos e Forjados S.A., as described below and (ii) Diaco S.A. in Colombia, as described in note 3.4.

On January 5, 2017, Gerdau S.A. made a payment of capital to Gerdau Summit Aços Fundidos e Forjados S.A. through the contribution of some of its assets and liabilities, which were evaluated by a specialized independent valuation company. On January 31, 2017, the Extraordinary General Meeting of Gerdau Summit Aços Fundidos e Forjados S.A. was held, where Sumitomo Corporation and The Japan Steel Works, Ltd. subscribed capital stock in this company, and a joint control agreement was signed among the partners. Accordingly, Gerdau Summit Aços Fundidos e Forjados S.A. will have accounting treatment of a jointly controlled entity in the Financial Statements of Gerdau S.A., with a 58.73% interest and will not have a significant impact on the Company's total Assets.

3.3 – Associate companies

The Company did not have material changes in interest in associate companies for the period ended on June 30, 2017, when compared to those existing on December 31, 2016.

3.4 – Results in operations with subsidiaries

On June 30, 2017, the Company concluded the operation to create a jointly controlled entity, based on the sale of 50% interest in Diaco S.A., in Colombia, to Putney Capital Management, which is already partner in its operation in the Dominican Republic. The new company's assets are Gerdau's long-steel industrial units in Colombia, with an annual installed steel capacity of 674 thousand tons. The transaction attributed an economic value to the jointly controlled entity of US\$165 million (equivalent to R\$546 million on June 30, 2017). As a result of the transaction, the Company received US\$44.7 million in cash (equivalent to R\$145.1 million) and recognized an expense of R\$72.5 million in the row Results in operations with subsidiaries of its Consolidated Statements of Income, mainly due to the fair value adjustment of the remaining interest in accordance with IFRS.

The transaction is aligned with the process to optimize Company's assets with focus on profitability and deleveraging and allowed the Company to reduce its indebtedness and working capital levels in the amounts of R\$226 million and R\$175 million, respectively.

NOTE 4 – CASH AND CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents

	June 30, 2017	December 31, 2016
Cash	16,374	9,412
Banks and immediately available investments	4,289,060	5,053,971
Cash and cash equivalents	<u>4,305,434</u>	<u>5,063,383</u>

Short term investments

	June 30, 2017	December 31, 2016
Held for trading	1,124,769	1,024,411
Short-term investments	<u>1,124,769</u>	<u>1,024,411</u>

Held for Trading

Held for trading securities include Bank Deposit Certificates and marketable securities investments, which are stated at their fair value. Income generated by these investments is recorded as financial income.

NOTE 5 – ACCOUNTS RECEIVABLE

	June 30, 2017	December 31, 2016
Trade accounts receivable - in Brazil	1,335,902	1,251,739
Trade accounts receivable - exports from Brazil	116,606	265,252
Trade accounts receivable - foreign subsidiaries	2,637,300	2,259,014
(-) Allowance for doubtful accounts	<u>(169,400)</u>	<u>(199,306)</u>
	<u>3,920,408</u>	<u>3,576,699</u>

NOTE 6 - INVENTORIES

	June 30, 2017	December 31, 2016
Finished products	3,373,902	2,987,785
Work in progress	1,367,944	1,201,327
Raw materials	1,578,334	1,487,971
Storeroom supplies	363,893	430,731
Imports in transit	327,107	253,729
(-) Allowance for adjustments to net realizable value	<u>(15,958)</u>	<u>(28,813)</u>
	<u>6,995,222</u>	<u>6,332,730</u>

The allowance for adjustment to net realizable value of inventories, on which the provision and reversal of provision are registered with impact on cost of sales, is as follows:

Balance as of January 01, 2016	(101,121)
Provision for adjustments to net realizable value	(62,899)
Reversal of adjustments to net realizable value	94,391
Exchange rate variation	10,711
Effect of selling of subsidiary	30,105
Balance as of December 31, 2016	(28,813)
Provision for adjustments to net realizable value	(15,359)
Reversal of adjustments to net realizable value	28,243
Exchange rate variation	(29)
Balance as of June 30, 2017	(15,958)

NOTE 7 – INCOME AND SOCIAL CONTRIBUTION TAXES

In Brazil, income taxes include federal income tax (IR) and social contribution (CS), which represents an additional federal income tax. The statutory rates for income tax and social contribution are 25% and 9%, respectively, and are applicable for the periods ended on June 30, 2017 and 2016. The foreign subsidiaries of the Company are subject to taxation at rates ranging between 25.0% and 38.5%. The differences between the Brazilian tax rates and the rates of other countries are presented under “Difference in tax rates in foreign companies” in the reconciliation of income tax and social contribution below.

a) Reconciliations of income and social contribution taxes at statutory rates to amounts presented in the Statement of Income are as follows:

	For the three-month period ended	
	June 30, 2017	June 30, 2016
Income (Loss) before income taxes	(24,867)	406,195
Statutory tax rates	34%	34%
Income and social contribution taxes at statutory rates	8,455	(138,106)
Tax adjustment with respect to:		
- Difference in tax rates in foreign companies	81,026	(195,396)
- Equity in earnings of unconsolidated companies	(826)	(37)
- Interest on equity *	28	-
- Tax credits and incentives	10,750	1,426
- Tax deductible goodwill recorded in statutory books	-	9,117
- Other permanent differences, net	1,951	(3,990)
Income and social contribution taxes	101,384	(326,986)
Current	(96,395)	(47,146)
Deferred	197,779	(279,840)

	For the six-month period ended	
	June 30, 2017	June 30, 2016
Income before income taxes	1,235,654	645,819
Statutory tax rates	34%	34%
Income and social contribution taxes at statutory rates	(420,122)	(219,578)
Tax adjustment with respect to:		
- Difference in tax rates in foreign companies	54,673	(364,294)
- Equity in earnings of unconsolidated companies	(1,101)	(2,615)
- Interest on equity *	56	-
- Tax credits and incentives	15,062	2,626
- Tax deductible goodwill recorded in statutory books	-	36,469
- Other permanent differences, net	15,839	(5,032)
Income and social contribution taxes	(335,593)	(552,424)
Current	(145,927)	(80,454)
Deferred	(189,666)	(471,970)

(*) Brazilian Law 9,249/95 provides that a company may, at its sole discretion, consider dividends distributions to shareholders to be considered as interest on own capital – subject to specific limitations - which has the effect of a taxable deduction in the determination of income tax and social contribution. The limitation is the greater of (i) shareholders' equity multiplied by the TJLP (Long Term Interest Rate) rate or (ii) 50% of the net income in the fiscal year. This expense is not recognized for financial reporting purposes and thus it does not impact accounting profit.

b) Tax Assets not booked:

Due to the lack of expectation of usage, the Company has not recorded a portion of tax assets arising from its operations in Brazil of R\$315,255 (R\$317,889 as of December 31, 2016), and negative basis of social contribution in subsidiaries, which do not have an expiration date. The subsidiaries abroad had R\$357,213 (R\$349,072 as of December 31, 2016) of tax credits on capital losses which deferred tax assets have not been booked and which expire between 2029 and 2035 and also several tax losses of state credits in the amount of R\$986,413 (R\$857,215 as of December 31, 2016), which expire at various dates between 2017 and 2037.

NOTE 8 – INVESTMENTS

	Jointly controlled entities					Associate companies			
	Joint Ventures North America	Gerdau Corsa S.A.P.I. de C.V.	Gerdau Metaldom Corp.	Gerdau Summit Aços Fundidos e Forjados S.A. (note 3.2)	Diaco S.A. (note 3.4)	Dona Francisca Energética S.A.	Corsa Controladora S.A. de C.V.	Corporación Centro Americana del Acero, S.A.	Others
Balance as of January 01, 2016	60,733	88,785	575,845	-	-	89,595	359,568	216,272	2,084
Equity in earnings	13,533	(96,306)	16,362	-	-	17,780	12,155	23,705	-
Cumulative Translation Adjustment	(9,492)	(11,748)	(88,051)	-	-	-	(105,420)	(36,134)	(350)
Effect of selling of subsidiary	-	-	-	-	-	-	-	(203,843)	(1,734)
Dividends/Interest on equity	(8,282)	-	(99,634)	-	-	(16,579)	-	-	-
Balance as of December 31, 2016	56,492	(19,269)	404,522	-	-	90,796	266,303	-	-
Equity in earnings	3,337	(41,996)	18,821	6,187	(1,302)	9,619	2,095	-	-
Cumulative Translation Adjustment	2,385	8,922	10,370	-	(3,854)	-	42,626	-	-
Capital increase	-	178,670	-	184,187	-	-	-	-	-
Creation of jointly controlled entity	-	-	-	-	145,084	-	-	-	-
Dividends/Interest on equity	(6,828)	-	-	-	-	(14,157)	-	-	-
Balance as of June 30, 2017	55,386	126,327	433,713	190,374	139,928	86,258	311,024	-	-

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

a) **Summary of changes in property, plant and equipment** – during the three-month period ended on June 30, 2017, acquisitions amounted to R\$195,252 (R\$326,184 as of June 30 2016), and disposals amounted to R\$95,290 (R\$309 as of June 30, 2016). During the six-month period ended on June 30, 2017, acquisitions amounted to R\$431,850 (R\$811,496 as of June 30 2016), and disposals amounted to R\$272,161 (R\$904 as of June 30, 2016). As described in note 3.4, the Company has no longer consolidated amounts, regarding its former subsidiary in Colombia, in the total amount of R\$424,989.

b) Capitalized borrowing costs – borrowing costs capitalized during the three-month period ended on June 30, 2017 amounted to R\$12,873 (R\$62,629 as of June 30, 2016). Borrowing costs capitalized during the six-month period ended on June 30, 2017 amounted to R\$27,867 (R\$126,534 as of June 30, 2016).

c) Guarantees – property, plant and equipment have been pledged as collateral for loans and financing in the amount of R\$640,241 as of June 30, 2017 (R\$632,376 as of December 31, 2016).

NOTE 10 – GOODWILL

The changes in goodwill are as follows:

	Goodwill	Accumulated impairment losses	Goodwill after Impairment losses
Balance as of January 1, 2016	18,099,186	(2,974,756)	15,124,430
(+/-) Foreign exchange effect	(2,645,368)	63,516	(2,581,852)
(-) Impairment (note 23)	-	(2,678,582)	(2,678,582)
(-) Effect of selling of subsidiary	(393,980)	-	(393,980)
Balance as of December 31, 2016	15,059,838	(5,589,822)	9,470,016
(+/-) Foreign exchange effect	273,270	(156,686)	116,584
Balance as of June 30, 2017	15,333,108	(5,746,508)	9,586,600

The amounts of goodwill by segment are as follows:

	June 30, 2017	December 31, 2016
Brazil	380,644	380,644
Special Steels	2,522,462	2,508,056
North America	6,683,494	6,581,316
	9,586,600	9,470,016

NOTE 11 – LOANS AND FINANCING

Loans and financing are as follows:

	Annual interest rate (*)	June 30, 2017	December 31, 2016
Working capital	9.13%	3,020,284	3,468,490
Financing of property, plant and equipment and others	8.23%	2,554,150	2,855,860
Ten/Thirty Years Bonds	6.24%	14,258,050	14,093,460
Total financing		19,832,484	20,417,810
Current		4,186,259	4,458,220
Non-current		15,646,225	15,959,590
Principal amount of the financing		19,498,064	20,049,854
Interest amount of the financing		334,420	367,956
Total financing		19,832,484	20,417,810

(*) Weighted average effective interest costs on June 30, 2017.

Loans and financing denominated in Brazilian Reais are indexed at fixed rates or to the following indicators: the TJLP (long-term interest rate), CDI (Interbank Deposit Certificate), the IGP-M (general market price index, a Brazilian inflation rate measured by Fundação Getúlio Vargas) and IPCA (Extended National Consumer Price Index).

Summary of loans and financing by currency:

	June 30, 2017	December 31, 2016
Brazilian Real (R\$)	2,985,728	3,228,759
U.S. Dollar (US\$)	16,250,117	16,487,116
Other currencies	596,639	701,935
	<u>19,832,484</u>	<u>20,417,810</u>

The amortization schedules of long-term loans and financing are as follows:

	June 30, 2017	December 31, 2016
2018(*)	1,188,730	1,679,416
2019	892,431	875,319
2020	3,294,983	3,261,435
2021	3,555,930	3,500,937
2022	147,072	150,916
2023 on	<u>6,567,079</u>	<u>6,491,567</u>
	<u>15,646,225</u>	<u>15,959,590</u>

(*) For the period as of June 30, 2017, the amounts represents payments from July 01, 2018 to December 31, 2018.

a) Monitoring indexes

Only operations with BNDES include the Company's contract established debt ratios. In the event of a possible breach of the indicator at the annual measurement, the Company enters into a curing period and a subsequent warranties renegotiation, not characterizing the possibility of a default event.

b) Guarantees

All loans contracted under the FINAME/BNDES program, totaling R\$119.2 million on June 30, 2017, are guaranteed by the assets being financed.

c) Credit Lines

In June 2009, the subsidiaries of the Company, Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and the former subsidiary Aços Villares S.A., obtained a pre-approved credit line with BNDES in the total amount of R\$1.5 billion to be used for the revamp and modernization of several areas, an increase in the production capacity of certain product lines, investment in logistics and energy generation, and also environmental and sustainability projects. The funds are made available at the time each subsidiary starts its specific investment and presents to BNDES the evidence of the investment made. The interest rate for this credit line is determined at the time of each disbursement, and is composed by indexes linked to of TJLP + 2.16% p.a. As of June 30, 2017, the outstanding balance of this credit facility was R\$561.7 million.

In November 2015, the Company concluded the renewal and increase of the volume of the Senior Unsecured Global Working Capital Credit Agreement, which is a US\$1 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The line is divided into two tranches, US\$250 million destined for Gerdau's North American subsidiaries borrowing needs and US\$750 million for Gerdau's Latin American subsidiaries' borrowing needs. The total term of the transaction is 3 years and the following companies guarantee this agreement: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. As of June 30, 2017, the outstanding balance of this credit line was US\$47 million (R\$155.5 million as of June 30, 2017).

NOTE 12 – DEBENTURES

Quantity as of June 30, 2017						
Issuance	General Meeting	Issued	Held in treasury	Maturity	June 30, 2017	December 31, 2016
3rd- A and B	May 27, 1982	144,000	137,174	06/01/2021	41,111	44,292
7th	July 14, 1982	68,400	66,122	07/01/2022	17,895	35,942
8th	November 11, 1982	179,964	170,631	05/02/2023	47,901	57,191
9th	June 10, 1983	125,640	124,358	09/01/2024	10,070	10,731
11th - A and B	June 29, 1990	150,000	148,010	06/01/2020	14,820	17,267
Total Consolidated					131,797	165,423
Non-current					131,797	165,423

Maturities of long-term amounts are as follows:

	June 30, 2017	December 31, 2016
2020	14,820	17,267
2021	41,111	44,292
2022	17,895	35,942
2023 on	57,971	67,922
	131,797	165,423

The debentures are denominated in Brazilian Reais, are nonconvertible, and pay variable interest as a percentage of the CDI – Interbank Deposit Certificate. The average notional interest rate was 12.85% and 14.00% for the six-month period ended on June 30, 2017 and year ended on December 31, 2016, respectively.

The Company has guarantees provided by the parent entity for debentures of the 7^a, 8^a, 9^a and 11^a issuances.

NOTE 13 - FINANCIAL INSTRUMENTS

a) General considerations - Gerdau S.A. and its subsidiaries enter into transactions with financial instruments whose risks are managed by means of strategies and exposure limit controls. All financial instruments are recorded in the accounting books and presented as cash and cash equivalents, short-term investments, trade accounts receivable, trade accounts payable, Loans and financing, debentures, related-party transactions, unrealized gains on derivatives, unrealized losses on derivatives, other current assets, other non-current assets, FIDC Obligation, other current liabilities and other non-current liabilities.

The Company has derivatives and non-derivative instruments, such as the hedge for some operations under hedge accounting. These operations are non-speculative in nature and are intended to protect the company against exchange rate fluctuations on foreign currency loans and against interest rate fluctuations.

b) Market value – the market value of the aforementioned financial instruments is as follows:

	June 30, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and cash equivalents	4,305,434	4,305,434	5,063,383	5,063,383
Short-term investments	1,124,769	1,124,769	1,024,411	1,024,411
Trade accounts receivable	3,920,408	3,920,408	3,576,699	3,576,699
Related parties	54,052	54,052	57,541	57,541
Unrealized gains on derivatives	4,050	4,050	12,951	12,951
Judicial Deposits	1,985,057	1,985,057	1,861,784	1,861,784
Other current assets	674,381	674,381	668,895	668,895
Other non-current assets	528,056	528,056	447,260	447,260
Liabilities				
Trade accounts payable	3,062,395	3,062,395	2,743,818	2,743,818
Loans and Financing	19,832,484	20,269,664	20,417,810	20,716,266
Debentures	131,797	131,797	165,423	165,423
Unrealized losses on derivatives	-	-	6,584	6,584
Obligations with FIDC	1,076,751	1,076,751	1,007,259	1,007,259
Other current liabilities	608,645	608,645	514,599	514,599
Other non-current liabilities	471,717	471,717	401,582	401,582

The fair values of Loans and Financing are based on market premises, which may take into consideration discounted cash flows using equivalent market rates and credit rating. All other financial instruments, which are recognized in the Consolidated Financial Statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if they were settled in advance.

c) Risk factors that could affect the Company's and its subsidiaries' businesses:

Price risk of commodities: this risk is related to the possibility of changes in prices of the products sold by the Company or in prices of raw materials and other inputs used in the productive process. Since the Company operates in a commodity market, net sales and cost of sales may be affected by changes in the international prices of their products or materials. In order to minimize this risk, the Company constantly monitors the price variations in the domestic and international markets.

Interest rate risk: this risk arises from the effects of the fluctuations in interest rates applied to the Company's financial liabilities or assets and future cash flows and income. The Company evaluates its exposure to these risks: (i) comparing financial assets and liabilities denominated at fixed and floating interest rates and (ii) monitoring the variations of interest rates like Libor and CDI. Accordingly, the Company may enter into interest rate swaps in order to reduce this risk.

Exchange rate risk: this risk is related to the possibility of fluctuations in exchange rates affecting the amounts of financial assets and liabilities or of future cash flows and income. The Company assesses its exposure to the exchange rate by measuring the difference between the amount of its assets and liabilities in foreign currency. The Company believes that the accounts receivables originated from exports, its cash and cash equivalents denominated in foreign currencies and its investments abroad are more than equivalent to its liabilities denominated in foreign currency. Since the management of these exposures occurs at each operation level, if there is a mismatch between assets and liabilities denominated in foreign currency, the Company may employ derivative financial instruments in order to mitigate the effect of exchange rate fluctuations.

Credit risk: this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in details the financial position of their customers, establishing a credit limit and constantly monitoring their balances. Regarding cash investments, the Company invests solely in financial institutions with

low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company's Credit Committee.

Capital management risk: this risk comes from the Company's choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity) based on internal policies and benchmarks. The KPIs (Key Performance Indicators) related to the objective "Capital Structure Management" are: WACC (Weighted Average Cost of Capital), Net Debt/EBITDA, Net Financial Expenses Coverage Ratio, and Indebtedness/Equity Ratio. The Net Debt is composed of the outstanding principal of the debt, less cash, cash equivalents and short-term investments (notes 4, 11 and 12). The total capitalization is formed by Total Debt (composed by the outstanding principal of the debt) and Equity (note 17). The Company may change its capital structure, as economic and financial conditions to optimize its financial leverage and its debt management. At the same time, the Company seeks to improve its ROCE (Return on Capital Employed) by implementing a working capital management and an efficient program of capital expenditures. In the long-term, the Company seeks to remain between the parameters below, admitting specific short-term variations:

WACC	between 10% to 13% a year
Net debt/EBITDA	less or equal to 2.5 times
Net Financial Expenses Coverage Ratio	greater or equal to 5.5 times
Debt/Equity Ratio	less than or equal to 60%

These key indicators are used to monitor objectives described above and may not necessarily be used as indicators for other purposes, such as impairment tests.

Liquidity risk: the Company's management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 11 and 12, respectively.

Sensitivity analysis:

The Company performed a sensitivity analysis, which can be summarized as follows:

Impacts on Statements of Income			
Assumptions	Percentage of change	June 30, 2017	June 30, 2016
Foreign currency sensitivity analysis	5%	197,991	247,783
Interest rate changes sensitivity analysis	10bps	59,064	71,602
Sensitivity analysis of changes in prices of products sold	1%	176,245	203,333
Sensitivity analysis of changes in raw material and commodity prices	1%	111,068	123,868
Interest rate and Foreign currency Swaps	10bps/5%	10,391	9,697
Sensitivity analysis of NDF's (Non Deliverable Forwards)	5%	1,335	16,352

Foreign currency sensitivity analysis: As of June 30, 2017, the Company is mainly exposed to variations between the Brazilian *real* and US Dollar. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian *real* and the US Dollar on debts that do not have hedge operations. The impact calculated considering such variation in the foreign exchange rate totals R\$197,991 and R\$108,975 after the effects of changes in the net investment hedge described in note 13.f, as of June 30, 2017 (R\$247.783 and R\$179.426 as of June 30, 2016, respectively) and represents income if appreciation of the Brazilian *real* against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian *real* against the US Dollar, however due to the investment hedge these effects would be mitigated when considered the income tax and exchange rate variance accounts.

The net amounts of trade accounts receivable and trade accounts payable denominated in foreign currency do not represent any relevant risk in the case of any fluctuation of exchange rates.

Interest rate sensitivity analysis: The interest rate sensitivity analysis made by the Company considers the effects of an increase or reduction of 10 basis point (bps) on the average interest rate applicable to the floating part of its

debt. The calculated impact, considering this variation in the interest rate totals R\$59,064 as of June 30, 2017 (R\$71.602 as of June 30, 2016) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates to which the Company is exposed are related to the loans, financing, and debentures presented in Notes 11 and 12, and are mainly comprised by Libor and CDI – Interbank Deposit Certificate.

Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production: the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sale price of the Company's products and the price of raw materials and other inputs used in the production process, mainly for operating in a commodity market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold, considering the net income and costs of the six month period ended on June 30, 2017, totals R\$176,245 (R\$203,333 as of June 30, 2016) and the variation in the price of raw materials and other inputs totals R\$111,068 as of June 30, 2017 (R\$123,868 as of June 30, 2016). The impact in the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

Sensitivity analysis of interest rate and foreign currency swaps: the Company has exposure to interest rate swaps for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 10 bps in the interest curve and of 5% in the interest rate, and its impacts in the swaps mark to market. These variations represent an income or expense of R\$10,391 (R\$9,697 as of June 30, 2016). These effects would be registered in the statement of comprehensive income. The interest rate swaps to which the Company is exposed to are presented in note 13.e.

Sensitivity analysis of forward contracts in US Dollar: the Company has exposure in forward contracts in US Dollar to some of its assets and liabilities. The sensitivity analysis calculated by the Company considers an effect of a 5% US Dollar depreciation or appreciation against the Indian Rupee and corresponds to the effects on the mark to market of such transactions. An increase of 5% on the US Dollar against the Indian Rupee represents a gain of R\$1,335 as of June 30, 2017 (R\$16,352 as of June 30, 2016, considering that in this amount there were Dollar/Colombian Pesos forward contracts) and a decrease of 5% on the US Dollar against the Indian Rupee represents a loss in the same amount presented above. The Dollar/Indian Rupee forward contracts were entered into to hedge liabilities (debt) and these effects in the mark to market would be recognized in the Consolidated Statement of Income. The forward contracts in US Dollar, in which the Company is exposed, are presented in note 13.e.

d) Financial Instruments per Category

Summary of the financial instruments per category:

June 30, 2017		Assets at fair value with gains and losses recognized in income	Assets at fair value with gains and losses recognized in shareholder's equity	Total
Assets	Loans and receivables			
Cash and cash equivalents	4,305,434	-	-	4,305,434
Short-term investments	-	1,124,769	-	1,124,769
Unrealized gains on financial instruments	-	-	4,050	4,050
Trade accounts receivable	3,920,408	-	-	3,920,408
Related parties	54,052	-	-	54,052
Judicial Deposits	1,985,057	-	-	1,985,057
Other current assets	674,381	-	-	674,381
Other non-current assets	438,692	89,364	-	528,056
Total	11,378,024	1,214,133	4,050	12,596,207
Financial result for the three-month period ended on Jun 30, 2017	109,471	18,797	-	128,268
Financial result for the six-month period ended on Jun 30, 2017	124,170	51,750	-	175,920

Liabilities	Liabilities at fair value with gains and losses recognized in income	Other financial liabilities at amortized cost	Total
Trade accounts payable	-	3,062,395	3,062,395
Loans and Financing	-	19,832,484	19,832,484
Debentures	-	131,797	131,797
FIDC Obligation	-	1,076,751	1,076,751
Other current liabilities	-	608,645	608,645
Other non-current liabilities	-	471,717	471,717
Total	-	25,183,789	25,183,789
Financial result for the three-month period ended on June 30, 2017	713	(633,938)	(633,225)
Financial result for the six-month period ended on June 30, 2017	(11,145)	(616,016)	(627,161)

December 31, 2016		Assets at fair value with gains and losses recognized in income	Assets at fair value with gains and losses recognized in shareholder's equity	Total
Assets	Loans and receivables			
Cash and cash equivalents	5,063,383	-	-	5,063,383
Short-term investments	-	1,024,411	-	1,024,411
Unrealized gains on financial instruments	-	-	12,951	12,951
Trade accounts receivable	3,576,699	-	-	3,576,699
Related parties	57,541	-	-	57,541
Judicial Deposits	1,861,784	-	-	1,861,784
Other current assets	668,895	-	-	668,895
Other non-current assets	380,211	67,049	-	447,260
Total	11,608,513	1,091,460	12,951	12,712,924
Financial result for the three-month period ended on June 30, 2016	(35,751)	53,606	-	17,855
Financial result for the six-month period ended on June 30, 2016	(72,643)	208,757	-	136,114

Liabilities	Liabilities at market value with gains and losses recognized in income	Other financial liabilities at amortized cost	Total
Trade accounts payable	-	2,743,818	2,743,818
Loans and Financing	-	20,417,810	20,417,810
Debentures	-	165,423	165,423
FIDC Obligation	-	1,007,259	1,007,259
Other current liabilities	-	514,599	514,599
Other non-current liabilities	-	401,582	401,582
Unrealized losses on financial instruments	6,584	-	6,584
Total	6,584	25,250,491	25,257,075
Financial result for the three-month period ended on June 30, 2016	(14,919)	(25,627)	(40,546)
Financial result for the six-month period ended on June 30, 2016	(45,467)	(74,741)	(120,208)

As of June 30, 2017, the Company has derivative financial instruments such as currency swaps and forward contracts in US Dollar. Part of these instruments are classified as cash flow hedges and their effectiveness can be measured, having their unrealized losses and /or gains classified directly in Other Comprehensive Income. The other derivative financial instruments have their realized and unrealized losses and/or gains presented in the account "Gains and losses on derivatives, net" in the Consolidated Statement of Income.

e) Operations with derivative financial instruments

Risk management objectives and strategies: In order to execute its strategy of sustainable growth, the Company implements risk management strategies in order to mitigate market risks.

The objective of derivative transactions is always related to mitigating market risks as stated in our policies and guidelines. The monitoring of the effects of these transactions is performed monthly by the Cash Management and Debt Committee, which validates the mark to market of these transactions. All derivative financial instruments gains and losses are recognized at fair value in the Consolidated Financial Statements of the Company.

Policy for use of derivatives: The Company is exposed to various market risks, including changes in exchange rates, commodities prices and interest rates. The Company uses derivatives and other financial instruments to reduce the impact of such risks on the fair value of its assets and liabilities or in future cash flows and results. The Company has established policies to evaluate the market risks and to approve the use of derivative transactions related to these risks. The Company enters into derivative financial instruments solely to manage the market risks mentioned above and never for speculative purposes. Derivative financial instruments are used only when they have a related position (asset or liability exposure) resulting from business operations, investments and financing.

Policy for determining fair value: the fair value of derivative financial instruments is determined using models and other valuation techniques, including future prices and market curves.

The derivative transactions may include: interest rate swaps, (both in the Libor dollar, as in other currencies), currency swaps and currency forward contracts.

Forward Contracts in US Dollar

The Company has entered into NDFs (Non Deliverable Forward) in order to mitigate the exchange variance risk on liabilities denominated in foreign currencies, mainly US dollar. The counterparties of these transactions are financial institutions with a low credit risk.

Swap Contracts

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

The derivatives instruments can be summarized and categorized as follows:

Contracts	Position	Notional value		Amount receivable		Amount payable	
		June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Forward							
Maturity at 2017	long in US\$	US\$ 8.2 million	US\$ 84.8 million	454	734	-	(6,584)
Maturity at 2017	short in US\$	-	US\$ 15.0 million	-	1,823	-	-
Cross currency swap							
Maturity in 2017	receivable under the swap payable under the swap	Libor 6M + 2.25% INR 11.02%	US\$ 25.0 million US\$ 25.0 million	1,172	5,684	-	-
Maturity in 2018	receivable under the swap payable under the swap	Libor 6M +2% INR 10.17%	US\$ 40.0 million US\$ 40.0 million	2,424	4,710	-	-
Total fair value of financial instruments				4,050	12,951	-	(6,584)

Prospective and retrospective tests demonstrated the effectiveness of the instruments qualified as cash flow hedge.

Unrealized gains on financial instruments	June 30, 2017	December 31, 2016
Current assets	-	2,557
Non-current assets	4,050	10,394
	<u>4,050</u>	<u>12,951</u>
Unrealized losses on financial instruments		
Current liabilities	-	(6,584)
	<u>-</u>	<u>(6,584)</u>
Net Income	June 30, 2017	June 30, 2016
Gains on financial instruments	9,093	13,320
Losses on financial instruments	(17,699)	(51,540)
	<u>(8,606)</u>	<u>(38,220)</u>
Other comprehensive income		
Losses on financial instruments	(6,578)	(45)
	<u>(6,578)</u>	<u>(45)</u>

f) Net investment hedge

The Company designated as hedge of part of its net investments in subsidiaries abroad the operations of Ten/Thirty Years Bonds. As a consequence, the effect of exchange rate changes on these debts has been recognized in the Statement of Comprehensive Income.

The exchange variation generated on the operations of Ten/Thirty Years Bonds in the amount of US\$2.5 billion (designated as hedges) is recognized in the Statement of Comprehensive Income, while the exchange rate on the portion of US\$0.8 billion (not designated as hedges) is recognized in income. Additionally, the Company opted to designate as hedge of the net investment financing operations held by the subsidiary Gerdau Açominas SA, in the amount of US\$0.1 billion, which were made in order to provide part of the funds to purchase these investments abroad.

The Company has proven the effectiveness of the hedge from its designation dates and demonstrated high effectiveness of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in the Statement of Comprehensive Income as an unrealized loss, net of taxes, in the amount of R\$355,743 and R\$141,229 for the three-month and six-month periods ended on June 30, 2017 (gain of R\$880,845 and R\$1,800,061 for the three and six month period ended on June 30, 2016).

The objective of the hedge is to protect, during the existence of the debt, the amount of part of the Company's investment in the subsidiaries mentioned above against positive and negative oscillations in the exchange rate. This objective is consistent with the Company's risk management strategy. Prospective and retrospective tests demonstrated the effectiveness of these instruments.

g) Measurement of fair value:

The IFRS defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The standard also establishes a three level hierarchy for the fair value, which prioritizes information when measuring the fair value by the company, to maximize the use of observable information and minimize the use of non-observable information. This IFRS describes the three levels of information to be used to measure fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 available, where (unadjusted) quoted prices are for similar assets and liabilities in non-active markets, or other data that is available or may be corroborated by market data for substantially the full term of the asset or liability.

Level 3 - Inputs for the asset or liability that are not based on observable market data, because market activity is insignificant or does not exist.

As of June 30, 2017, the Company had some assets that the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value on a recurring basis and subject to disclosure requirements of IFRS 7 as of June 30, 2017 and December 31, 2016, are as follows:

	Fair Value Measurements at Reporting Date Using					
	Quoted Prices Active Markets for Identical Assets (Level 1)			Quoted Prices in Non-Active Markets for Similar Assets (Level 2)		
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Current assets						
Cash and cash equivalents	4,305,434	5,063,383	-	-	4,305,434	5,063,383
Short-term investments - Held for Trading	1,124,769	1,024,411	252,669	458,639	872,100	565,772
Trade accounts receivable	3,920,408	3,576,699	-	-	3,920,408	3,576,699
Unrealized gains on financial instruments	-	2,557	-	-	-	2,557
Other current assets	674,381	668,895	-	-	674,381	668,895
Non-current assets						
Related parties	54,052	57,541	-	-	54,052	57,541
Unrealized gains on financial instruments	4,050	10,394	-	-	4,050	10,394
Judicial deposits	1,985,057	1,861,784	-	-	1,985,057	1,861,784
Other non-current assets	528,056	447,260	-	-	528,056	447,260
	12,596,207	12,712,924	252,669	458,639	12,343,538	12,254,285
Current liabilities						
Trade accounts payable	3,062,395	2,743,818	-	-	3,062,395	2,743,818
Short-term debt	4,186,259	4,458,220	-	-	4,186,259	4,458,220
Unrealized losses on financial instruments	-	6,584	-	-	-	6,584
Other current liabilities	608,645	514,599	-	-	608,645	514,599
Non-current liabilities						
Long-term debt	15,646,225	15,959,590	-	-	15,646,225	15,959,590
Debentures	131,797	165,423	-	-	131,797	165,423
FIDC Obligation	1,076,751	1,007,259	-	-	1,076,751	1,007,259
Other non-current liabilities	471,717	401,582	-	-	471,717	401,582
	25,183,789	25,257,075	-	-	25,183,789	25,257,075

h) Changes in liabilities from Cash flow from financing activities:

As required by IAS 7, the Company demonstrates below the changes in the liabilities of Cash Flow from financing activities, of the Statement of Cash Flows:

	December 31, 2016	Cash effects		Non-cash effects		June 30, 2017
		Received/(Paid) from financing activities	Interest Payment	Interest on loans, financing and loans with related parties	Exchange Variance and others	
Related Parties, net	(57.541)	3.489	-	-	-	(54.052)
Loans and Financing, Debentures and Unrealized Gains and Losses on financial instruments	20.576.866	(568.183)	(728.383)	703.772	(23.841)	19.960.231

	December 31, 2015	Cash effects		Non-cash effects		June 30, 2016
		Received/(Paid) from financing activities	Interest Payment	Interest on loans, financing and loans with related parties	Exchange Variance and others	
Related Parties, net	(53.506)	6.271	-	2.532	(16.011)	(60.714)
Loans and Financing, Debentures and Unrealized Gains and Losses on financial instruments	26.417.256	(1.765.488)	(600.642)	771.580	(4.146.324)	20.676.382

NOTE 14 – PROVISIONS FOR TAX, CIVIL AND LABOR CLAIMS

The Company and its subsidiaries are party in judicial and administrative proceedings involving labor, civil and tax matters. Based on the opinion of its legal counsel, Management believes that the provisions recorded for these judicial and administrative proceedings is sufficient to cover probable and reasonably estimable losses from unfavorable court decisions, and that the final decisions will not have significant effects on the financial position and operational results of the Company and its subsidiaries.

For claims whose expected loss is considered more likely than not, the provisions have been recorded considering the judgment of the Company's legal advisors and of Management and the provisions are considered sufficient to cover more likely than not expected losses. The balances of the provisions are as follows:

D) Provisions

	June 30, 2017	December 31, 2016
a) Tax provisions	493,631	1,829,771
b) Labor provisions	539,711	358,901
c) Civil provisions	46,552	50,554
	<u>1,079,894</u>	<u>2,239,226</u>

As the net result of the reversal of the accounting provision described below (tax provisions), related to the discussion of the exclusion of the ICMS ("Imposto sobre a circulação de Mercadorias e Serviços" – ICMS – State VAT) from the tax base for contributions to PIS ("Contribuição ao Programa de Integração Social"- PIS) and COFINS ("Contribuição para o Financiamento da Seguridade Social" - COFINS), and the recognition of other accounting provisions for the six-month period ended on June 30, 2017, the Company recorded the amounts of R\$929,711 on the item "Reversal of contingent liabilities, net" (Operating Result), and R\$369,819, on the item "Reversal of monetary update of contingent liabilities, net" (Financial Income), in its Consolidated Statements of Income.

a) Tax Provisions

The Company and its subsidiaries are parties to lawsuits related to the exclusion of the ICMS from the tax base for contributions to PIS and COFINS, with respect to which the Company made judicial deposits and accounting provisions, which in turn were updated in accordance with the SELIC rate. The balances recorded as of December 31, 2016 refer to the unpaid amounts of PIS and COFINS since 2009, the collection of which was fully suspended, due to these judicial deposits.

Recently, on March 15, 2017, the Brazilian Federal Supreme Court (STF – Supremo Tribunal Federal) ruled on a claim related to this matter, and by 6 votes to 4, concluded: "The ICMS does not comprise the tax base for PIS and COFINS assessment purposes". The STF decision, in principle, affects all of the judicial proceedings in progress, due to its general repercussion. However, it is expected that, once this decision is published, the National Treasury Attorney will ask the STF to modulate this decision prospectively, which could limit the production of its effects for taxpayers.

Pursuant to paragraph 14 of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, a provision is recognized only when "it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation", among other requirements. On March 31, 2017 the Company, based on (i) the conclusion of this judgment by the STF (sitting *en banc*) in Extraordinary Appeal No. 574,706/RG with general repercussion, which ruled that the inclusion of the ICMS in the PIS and COFINS calculation tax base was unconstitutional, and (ii) the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), reversed the aforementioned accounting provision. The Company's decision is supported by the position of its legal advisors who, when reassessing the likelihood of loss in the ongoing lawsuits related to the matter, concluded that the probability of loss, as to the merits of these lawsuits, became remote as of the date of the enactment of this decision.

The Company emphasizes, however, that in view of the possibility that the STF may understand that the modulation mechanism necessarily applies to its decision, and that the application of such a mechanism could limit the effects of the same, a revaluation of the risk of loss associated with the aforementioned lawsuits may be required, pursuant to paragraph 59 of IAS 37. Accordingly, depending on the terms of the modulation, as defined by the STF, such revaluation may result in the need to record new provisions in connection with this matter in the future.

The balance of judicial deposits as of June 30, 2017, in the amount of R\$1,643,386, referring to the same discussion on the inclusion of the ICMS in the tax base of PIS and COFINS, awaits termination of the relevant lawsuits before the Brazilian courts in order to be returned to the Company.

The other tax provisions refer substantially to discussions related to the ICMS, the settlement of PIS credits and the assessment of PIS and COFINS on other revenues.

b) Labor Provisions

The Company is party to individual and collective labor lawsuits, and the claims substantially refer to overtime payment, nightshift premium, time spent during transportation time, health hazard and hazardous duty premiums, labor accident damages, labor-related diseases and damages for mental anguish, among others.

c) Civil Provisions

The Company and its subsidiaries are also a party to civil lawsuits arising in the normal course of its business, which totaled as of June 30, 2017 the amount shown as provision liabilities.

II) Contingent liabilities for which provisions were not recorded

Considering the opinion of legal advisors and management's assessment, contingencies listed below have chance of loss considered as possible (but not likely) and due to this classification accruals have not been made in accordance with IFRS.

a) Tax contingencies

a.1) The Company and its subsidiaries Gerdau Aços Longos S.A. and Gerdau Açominas S.A., have other lawsuits related to the ICMS (state VAT) which are mostly related to credit rights and rate differences, whose demands totaled R\$1,998,754.

a.2) The Company and its subsidiaries Gerdau Aços Longos S.A. and Gerdau Açominas S.A., Gerdau Aços Especiais and Gerdau S.A., are parties to the lawsuits relating to other taxes. The total amount of these lawsuits is R\$909,096.

a.3) Subsidiary Gerdau Aços Longos S.A. is a party to an administrative proceeding relating to Withholding Income Tax, in the amount of R\$119,773, assessed on the remittance abroad of interest charged on export financings under Export Prepayment or Export Advance Agreements. The Company submitted an administrative claim challenging the tax assessment on January 13, 2017, which was rejected by the Brazilian Federal Revenue Judgment Office (Delegacia de Julgamento da Receita Federal do Brasil), reason for which the Company is preparing a voluntary appeal, to be submitted to the Brazilian Board of Tax Appeals (Conselho Administrativo de Recursos Fiscais — "CARF", administrative body of the Ministry of Finance of Brazil)

a.4) Subsidiaries Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are parties to administrative and judicial proceedings relating to IRPJ — Corporate Income Tax and CSLL — Social Contribution Tax, in the current amount of R\$1,455,853. Said proceedings relate to profits generated abroad, of which (i) R\$1,288,123 correspond to two proceedings involving Gerdau Internacional Empreendimentos Ltda., of which (i.a.) R\$930,081 relate to a proceeding that is no longer subject to appeal in CARF and was referred for judicial collection, which collection is being challenged in the competent judicial lower court; and (i.b) R\$358,042 relate to a voluntary appeal which was partially granted in the lower tribunal of the Brazilian Board of Tax Appeals (Conselho Administrativo de Recursos Fiscais — "CARF", administrative body of the Ministry of Finance of Brazil), and was subject to special appeal which was partially granted in CARF's superior tribunal with the publication of the judgment on May 25, 2017, and is currently awaiting due diligence by the Internal Revenue Service, as determined by the CARF decision, and new appeals may be filed after the conclusion of such procedure; and (ii) R\$167,730 correspond to a proceeding involving Gerdau Aços Especiais S.A., whose voluntary appeal in CARF's lower tribunal was dismissed, for which a special appeal was filed, and currently awaits judgment in CARF's superior tribunal.

a.5) Subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., are parties to administrative proceedings relating to the disallowance of the deductibility of goodwill generated in accordance with

Article 7 and 8 of Law 9,532/97 — as a result of a corporate restructuring carried out in 2004/2005 — from the tax base of the Corporate Income tax - IRPJ and Social Contribution on Net Income - CSLL. The total updated amount of the proceedings is R\$5,788,292, of which (i) R\$4,563,274 correspond to four proceedings involving subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., for which administrative discussions already ended and are currently in the administrative collection stage; and the Companies obtained injunctive relief to permit it to offer a judicial guarantee using a liability insurance policy in the amount of R\$4,696,249, for judicial discussions on Embargoes to Execution by the subsidiary Gerdau Aços Longos S.A. were initiated, in their respective proceedings, which total the amount of R\$3,122,552; (ii) R\$525,370 correspond to two proceedings involving Gerdau Aços Longos S.A., whose voluntary appeal is currently pending in CARF's lower tribunal; (iii) R\$119,629 correspond to a proceeding involving the subsidiary Gerdau Aços Especiais S.A., whose voluntary appeal is currently pending in CARF's lower tribunal; and (iv) R\$580,019 correspond to one proceeding involving the subsidiary Gerdau Aços Longos S.A., the challenge to which was filed by the Company on January 13, 2017 and was partially granted by the Brazilian Federal Revenue Judgment Office (Delegacia de Julgamento da Receita Federal do Brasil) on June 30, 2017, decision which is currently pending a court summons to the company for opposition of the applicable appeal.

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

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

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

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

b) Civil contingencies

b.1) A lawsuit arising from the request by two civil construction unions in the state of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus, violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE), the final opinion was that a cartel exists. The lawsuit was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment, which resulted in a fine to the Company and other long steel producers, on September 23, 2005, an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes (fine of R\$245,070, updated by the judicial accounting on August 01, 2013 to R\$417,820)

Two lawsuits challenge the investigation conducted by the Competition Defense System and its merits judgment, whose grounds are procedural irregularities, especially the production of evidence, based on an economic study, to

prove the lack of a cartel. The Court, upon offer of bank guarantee letter, granted the suspension of the effects of CADE's decision. Sentences were handed down for the dismissal of the actions and both are found in appeal phase.

The Company denies having been engaged in any type of anti-competitive conduct and believes based on information available, including the opinion of its legal counsel, that it is possible that the decision will be reverted.

b.2) The Company and its subsidiaries are parties to other demands of a civil nature that collectively have a discussion amount of approximately R\$232,519. For these demands was not performed accounting accrual, since were considered as possible losses, based on the opinion of its legal advisors.

b.3) On May 26, 2016, a securities class action complaint was filed in the United States District Court for the Southern District of New York against Gerdau and certain executives and former executives of the Company by purchasers of American Depositary Receipts (ADRs) of the Company that trade on the New York Stock Exchange. On August 9, 2016, the court appointed the Policemen's Annuity and Benefit Fund of Chicago as lead plaintiff. On October 31, 2016, lead plaintiff filed an amended complaint under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of a purported class of purchasers of Gerdau ADRs between April 23, 2012 and May 16, 2016. Among other things, the amended complaint alleged that the Company and certain executives had engaged in a bribery scheme involving members of the Brazilian Board of Tax Appeals (CARF), which had purportedly resulted in the nonpayment of approximately US\$429 million in taxes and resulted in defendants' statements in Gerdau's securities filings about Gerdau's business, operations, and prospects being false and misleading and/or lacking a reasonable basis. The amended complaint did not specify an amount of alleged damages, and it also included claims pertaining to the transaction relating to the acquisition of equity interests described in note (c) below. On January 17, 2017, the Company filed a motion to dismiss, but before its review by the Court, the parties asked for a stay of the proceedings, so that they could engage in a mediation process. As a result of the mediation, on July 5, 2017 lead plaintiff and the defendants reached a settlement, in the amount of US\$15 million, which remains subject to final approval by the court. The amount of the settlement was substantially covered by insurance. The settlement does not acknowledge any liability by the defendants and, in the opinion of the Company and its legal advisors, is the best alternative to eliminate the uncertainties, burdens and costs to be incurred if the dispute were to continue.

c) Administrative proceeding – Brazilian Securities Commission (CVM)

On July 14, 2015, the Company acquired non-controlling interests in the following companies: Gerdau Aços Longos S.A. (4.77%), Gerdau Açominas S.A. (3.50%), Gerdau Aços Especiais S.A. (2.39%) and Gerdau América Latina Participações S.A. (4.90%), having as counterparty Itaú Unibanco S.A. and ArcelorMittal Netherlands BV. This transaction was approved by the Board of Directors of Gerdau S.A. by unanimous vote of the directors on July 13, 2015, based on the market opportunity and the analysis that the prices were appropriate considering: economic evaluations conducted by independent report, the financial instruments used, the payment terms, capturing value through a more concentrated cash flow and long-term vision for the Company. The Company, in compliance with CVM requests for clarification on the acquisition, disclosed that the decision to its acquisition had exclusively business merit and was duly considered and unanimously approved by the Board of Directors. The terms and conditions for the acquisition considered long-term market prospects. On October 21, 2016, Metalúrgica Gerdau S.A. and certain directors and former directors of Gerdau S.A. filed a defense in the administrative proceeding brought by CVM on the acquisition of non-controlling interests in the subsidiaries, in the sense that the operation was businesslike justified, as above stated. There is no estimate for a final decision of the matter. Metalúrgica Gerdau S.A. believes that, currently, there is not enough information to disclose or determine if a provision for losses is required.

III) Judicial deposits

The Company has judicial deposits related to tax, labor and civil lawsuits as listed below:

	June 30, 2017	December 31, 2016
Tax	1,828,250	1,716,996
Labor	117,325	107,191
Civil	39,482	37,597
	<u>1,985,057</u>	<u>1,861,784</u>

IV) Eletrobrás Compulsory Loan

The Compulsory Loan, instituted by the Brazilian government in order to expand and improve the energy sector of the country was charged and collected from industrial consumers with monthly consumption equal or superior to 2000kwh through the “electricity bills” issued by the electric power distribution companies, was converted into credits to the taxpayers based on the annual value of these contributions made between 1977 and 1993. The legislation sets a maximum 20 years period to return the compulsory loan to the taxpayers, providing Eletrobrás the possibility of anticipating this return through the conversion of those loans in shares of its own issue. Prior to the conversion of the credits into shares, those credits were adjusted through an indexer and quantifier, called Standard Unit (SU). It happens that the compulsory loan was charged to the companies in their monthly electricity bills, consolidated during the year, and only indexed by the SU in January of next year, resulting in a lack of monthly monetary adjustment during the years of collection, as well as interest. This procedure imputed to taxpayers considerable financial losses, particularly during the periods when the monthly inflation rates stood at high levels.

In order to claim the appropriate interest and monetary correction, subtracted by the methodology applied by Eletrobrás, the Company (understood to be legal entities existing at the time and later became part of Gerdau S.A.) filed lawsuits claiming credits resulting from differences on the monetary correction of principal, interest, moratory and other accessory amounts owed by Eletrobrás due to the compulsory loans, totaling approximately R\$1,260 million. Recently, particularly in 2015, processes involving representative amounts were definitively judged by the Superior Court of Justice - STJ favorable to the Company so that no further appeals against such decisions apply (“final judgment”). For claims with a final judgment, it yet remains the enforcement of ruling (or execution phase) where the actual amounts to be settled will be calculated.

Obtaining favorable decisions represented by the final judgment mentioned above, in accordance with IAS 37, suggests that the inflow of economic benefits has become probable. However, it is not yet practicable to reasonably determine the realization of the gain in the form of fitting of resources arising from these decisions has reached a level of virtually certain and that the Company has control over such assets, which under the above standards, implies that such gains are not recorded until such conditions are demonstrably present.

NOTE 15 - RELATED-PARTY TRANSACTIONS

a) Intercompany loans

	June 30, 2017	December 31, 2016
Assets		
Jointly-controlled entities		
Gerdau Corsa SAPI de C.V.	-	48
Others		
Fundação Gerdau	54,052	57,493
	<u>54,052</u>	<u>57,541</u>
	For the three-month period ended	
	June 30, 2017	June 30, 2016
Net financial loss	-	(2,532)

Operations with related parties

During the three and six-month periods ended on June 30, 2017 and 2016, the Company, through its subsidiaries, performed commercial operations with some of its associate companies and jointly controlled entities in sales of R\$152,569 and R\$241,219 as of June 30, 2017, respectively (R\$107,434 and R\$186,056 as of June 30, 2016, respectively) and purchases in the amount of R\$29,726 and R\$61,541 as of June 30, 2017, respectively (R\$25,546 and R\$60,383 as of June 30, 2016, respectively). The net balance totals R\$179,679 as of June 30, 2017 (R\$125,673 as of June 30, 2016).

During the three and six-month periods ended on June 30, 2017 and 2016, the Company, through its subsidiaries, performed transactions with controlling shareholders, directly or indirectly, mainly of guarantees provided by the controlling in guarantees of debentures, on which the Company pays a fee of 0.95 % p.a. on the amount guaranteed. The effect of these transactions was an expense of R\$281 and R\$551, respectively (R\$413 and R\$1,365 on June 30, 2016). Additionally , the Company recorded revenues of R\$216 and R\$416 in the three and six-month periods, respectively (R\$251 and R\$503 on June 30, 2016, respectively), derived from rental agreement.

Guarantees granted

Related Party	Relationship	Object	Original Amount	Maturity	Balance as of June 30, 2017	Balance as of December 31, 2016
GTL Trade Finance Inc.	Subsidiary	10-year Bond	1,744,000	oct/17	2,616,125	2,577,296
GTL Trade Finance Inc.	Subsidiary	30-year Bond	1,118,000	apr/44	1,654,100	1,629,550
Diaco S.A.	Jointly-controlled entity	Financing Agreements	302,314	aug/18 - june/19	290,354	397,238
Gerdau Holding Inc.	Subsidiary	10-year Bond	2,188,125	jan/20	1,828,528	1,801,389
Gerdau Trade Inc.	Subsidiary	10-year Bond	2,117,750	jan/21	3,395,619	3,345,222
Gerdau Corsa S.A.P.I. de C.V.	Jointly-controlled entity	Financing Agreements	2,038,379	july/17 - dec/20	2,055,450	2,061,260
GTL Trade Finance Inc., Gerdau Holdings Inc.	Subsidiary	10-year Bond	2,606,346	apr/24	3,032,157	2,987,154
Sipar Aceros S.A.	Subsidiary	Financing Agreements	436,959	sep/18-sep/21	118,677	434,706
Gerdau Trade Inc.	Subsidiary	10-year Bond	1,501,275	apr/23	1,792,399	1,832,625
Gerdau Steel India Ltd.	Subsidiary	Financing Agreements	295,471	aug/17 - feb/19	368,903	354,585
Gerdau Steel India Ltd.	Subsidiary	Financing Agreements	285,673	Undetermined	142,095	55,130
Comercial Gerdau Bolivia	Subsidiary	Financing Agreements	12,980	nov/17	13,233	13,036
Gerdau Açominas S.A.	Subsidiary	Financing Agreements	3,160,958	july/18 - feb/21	2,507,565	2,627,205
Gerdau Ameristeel Us. Inc.	Subsidiary	25-year Bond	103,596	oct/37	244,807	166,214
Gerdau Aços Longos S.A.	Subsidiary	Financing Agreements	556,247	oct/24 - dec/30	300,921	318,784
Gerdau Aços Longos S.A.	Subsidiary	Financing Agreements	299,918	dec/17 - july/18	311,629	304,194
Siderúrgica Zuliana, C.A.	Subsidiary	Financing Agreements	50,010	dec/17	33,082	65,182
Gerdau Aços Especiais S.A.	Subsidiary	Financing Agreements	70,000	feb/20	56,000	63,000

b) Debentures

Debentures are held by parent companies, directly or indirectly, in the amount of R\$25,975 as of June 30, 2017 (R\$33,438 as of December 31, 2016), which corresponds to 4,375 debentures (5,964 as of December 31, 2016).

c) Price conditions and charges

Loan agreements between Brazilian companies carry interest based on the CDI (Interbank Deposit Certificate) and Libor rate plus exchange variance, when applicable. Sales of products and purchases of inputs are made under terms and conditions agreed between the parties.

d) Management compensation

The Company paid to its management salaries, benefits and variable compensation totaling R\$8,426 and R\$19,424 for the three and six-month periods ended on June 30, 2017 (R\$9,351 and R\$49,394 for the three and six-month periods ended on June 30, 2016). The contributions for the defined contribution plan, related to the management of the Company, totaled R\$291 and R\$576 for the three and six-month period ended on June 30, 2017, respectively (R\$468 and R\$695 on June 30, 2016).

The cost of long-term incentive plans recognized in income and attributable to key management (members of Board of Directors and executive officers) totaled R\$3,678 and R\$7,327 during the three and six-month period ended on June 30, 2017, respectively (R\$2,806 and R\$4,634 for the three and six-month period ended on June 30, 2016).

Additionally, for the three and six-month period ended on June 30, 2017, the compensation for the members of the Advisory Board was R\$0 (R\$490 and R\$979 in the three and six-month periods ended on June 30, 2016).

NOTE 16 - OBLIGATIONS WITH FIDC - INVESTMENT FUND IN CREDIT RIGHTS

Part of the assets resulting from the favorable judgments of credits with Eletrobras mentioned in Note 14 iv were used to set up a Non Standardized Credit Right Investment Fund, constituted and duly authorized to operate by the Securities and Exchange Commission of Brazil ("FIDC NP Barzel"), whose fair value at the FIDC Inception date was R\$800 million. The single quota of this FIDC was sold in 2015 in the acquisition of minority interests transaction in subsidiaries of Gerdau S.A.

The Company assures the FIDC, through the transfer agreement price adjustments clause, minimum return on the transferred amount of the credits rights on the lawsuits. However, where the amounts received in the lawsuits exceed the transferred amount, monetarily adjusted, the Company will be entitled to a substantial percentage of that gain. Additionally, the Company has the right of first offer to repurchase those receivables in the event of sale by the Fund, in accordance to the contract subscribed, and has the amount of R\$1,076,751 recognized in the account "Payables to FIDC" as of June 30, 2017 (R\$1,007,259 as of December 31, 2016).

NOTE 17 – EQUITY

a) Capital – The Board of Directors may, without need to change the bylaws, issue new shares (authorized capital), including the capitalization of profits and reserves up to the authorized limit of 1,500,000,000 common shares and 3,000,000,000 preferred shares, all without nominal value. In the case of capital increase through subscription of new shares, the right of preference shall be exercised in up to 30 days, except in the case of a public offering, when the limit is not less than 10 days.

Reconciliation of common and preferred outstanding shares is presented below:

	June 30, 2017		December 31, 2016	
	Common shares	Preferred shares	Common shares	Preferred shares
Balance at the beginning of the period	571,929,945	1,137,018,570	571,929,945	1,114,744,538
Repurchase of Shares	-	-	-	(10,000,000)
Exercise of stock option	-	205,093	-	2,274,032
Transfer of Shares	-	-	-	30,000,000
Balance at the end of the period	571,929,945	1,137,223,663	571,929,945	1,137,018,570

On June 30, 2017, 573,627,483 common shares and 1,146,031,245 preferred shares are subscribed and paid up, with a total capital of R\$19,249,181 (net of share issuance costs). Ownership of the shares is presented below:

Shareholders	Shareholders											
	June 30, 2017						December 31, 2016					
	Common	%	Pref.	%	Total	%	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A. and subsidiary*	483,922,176	84.4	169,447,856	14.8	653,370,032	38.0	449,712,654	78.4	202,806,626	17.7	652,519,280	37.9
Brazilian institutional investors	31,241,647	5.4	93,998,273	8.2	125,239,920	7.3	41,883,032	7.3	92,721,295	8.1	134,604,327	7.8
Foreign institutional investors	18,440,996	3.2	713,762,621	62.3	732,203,617	42.6	11,122,498	1.9	705,652,715	61.5	716,775,213	41.8
Other shareholders	38,325,126	6.7	160,014,913	13.9	198,340,039	11.5	69,211,761	12.1	135,837,934	11.9	205,049,695	11.9
Treasury stock	1,697,538	0.3	8,807,582	0.8	10,505,120	0.6	1,697,538	0.3	9,012,675	0.8	10,710,213	0.6
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

*Metalúrgica Gerdau S.A. is the controlling shareholder and Stichting Gerdau Johannpeter is the ultimate controlling shareholder of the Company.

Preferred shares do not have voting rights and cannot be redeemed but have the same rights as common shares in the distribution of dividends and also priority in the capital distribution in case of liquidation of the Company.

b) Treasury stocks

Changes in treasury shares are as follows:

	June 30, 2017				December 31, 2016			
	Common	R\$	Preferred shares	R\$	Common	R\$	Preferred shares	R\$
Balance at the beginning of the period	1,697,538	557	9,012,675	98,189	1,697,538	557	31,286,707	382,806
Repurchase of shares	-	-	-	-	-	-	10,000,000	95,343
Exercise of stock option	-	-	(205,093)	(21,196)	-	-	(2,274,032)	(10,461)
Transfer of shares	-	-	-	-	-	-	(30,000,000)	(369,499)
Balance at the end of the period	1,697,538	557	8,807,582	76,993	1,697,538	557	9,012,675	98,189

These shares will be held in treasury for subsequent cancelling or will service the long-term incentive plan of the Company and its subsidiaries or subsequently sold on the market. The average acquisition cost of the treasury preferred shares was R\$8.74.

c) **Capital reserves** - consists of premium on issuance of shares.

d) Retained earnings

I) Legal reserves - under Brazilian Corporate Law, the Company must transfer 5% of the annual net income determined on its statutory books in accordance with Brazilian accounting practices to the legal reserve until this reserve equals 20% of the paid-in capital. The legal reserve can be utilized to increase capital or to absorb losses, but cannot be used for dividend purposes.

II) Tax incentive reserve - under Brazilian Corporate Law, the Company may transfer to this account part of net income resulting from government benefits which can be excluded from the basis for dividend calculation.

III) Investments and working capital reserve - consists of earnings not distributed to shareholders and includes the reserves required by the Company's by-laws. The Board of Directors may propose to the shareholders the transfer of at least 5% of the profit for each year determined in its statutory books in accordance with accounting practices adopted in Brazil to this reserve. Amounts can be allocated to the reserve only after the minimum dividend requirements have been met and its balance cannot exceed the amount of paid-in capital. It is also recognized in this

account the difference between the average amount of the treasury stocks and transactional value of the share in the case of stock option exercised and assignment of preferred shares. The reserve can be used to absorb losses, if necessary, for capitalization, for payment of dividends or for the repurchase of shares.

e) Operations with non-controlling interests - correspond to amounts recognized in equity for changes in non-controlling interests.

f) Other reserves - Includes gains and losses on available for sale securities, gains and losses on net investment hedge, gains and losses on derivatives accounted as cash flow hedge, cumulative translation adjustments, expenses recorded for stock option plans and actuarial gains and losses on postretirement benefits.

NOTE 18 – EARNINGS PER SHARE (EPS)

Basic

	For the three-month period ended on			For the three-month period ended on		
	June 30, 2017			June 30, 2016		
	Common	Preferred	Total	Common	Preferred	Total
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Allocated net income available to	25,111	49,912	75,023	24,443	48,635	73,078
Basic denominator						
Weighted-average outstanding shares, after deducting the average of treasury shares	571,929,945	1,136,773,427		571,929,945	1,138,008,484	
Earnings per share (in R\$) – Basic	0.04	0.04		0.04	0.04	
	For the six-month period ended on			For the six-month period ended on		
	June 30, 2017			June 30, 2016		
	Common	Preferred	Total	Common	Preferred	Total
	(in thousands, except share and per share data)			(in thousands, except share and per share data)		
Basic numerator						
Allocated net income (loss) available to Common and Preferred shareholders	298,019	592,345	890,364	27,511	54,262	81,773
Basic denominator						
Weighted-average outstanding shares, after deducting the average of treasury shares	571,929,945	1,136,773,427		571,929,945	1,128,067,246	
Earnings per share (in R\$) – Basic	0.52	0.52		0.05	0.05	

Diluted

	For the three-month period ended on	
	June 30, 2017	June 30, 2016
Diluted numerator		
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	49,912	48,635
Add:		
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of the long term incentive plan	195	98
	<u>50,107</u>	<u>48,733</u>
Net income allocated to common shareholders	25,111	24,443
Less:		
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of the long term incentive plan	(195)	(98)
	<u>24,916</u>	<u>24,345</u>
Diluted denominator		
Weighted - average number of shares outstanding		
Common Shares	571,929,945	571,929,945
Preferred Shares		
Weighted-average number of preferred shares outstanding	1,136,773,427	1,138,008,484
Potential increase in number of preferred shares outstanding due to the long term incentive plan	13,411,564	6,871,291
Total	<u>1,150,184,991</u>	<u>1,144,879,775</u>
Earnings per share – Diluted (Common and Preferred Shares) - in R\$	<u>0.04</u>	<u>0.04</u>

	For the six-month period ended on	
	June 30, 2017	June 30, 2016
Diluted numerator		
Allocated net income available to Common and Preferred shareholders		
Net income allocated to preferred shareholders	592,345	54,262
Add:		
Adjustment to net income allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of the long term incentive plan	2,483	129
	<u>594,828</u>	<u>54,391</u>
Net income allocated to common shareholders	298,019	27,511
Less:		
Adjustment to net income allocated to common shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of the long term incentive plan	(2,483)	(129)
	<u>295,536</u>	<u>27,382</u>
Diluted denominator		
Weighted - average number of shares outstanding		
Common Shares	571,929,945	571,929,945
Preferred Shares		
Weighted-average number of preferred shares outstanding	1,136,773,427	1,128,067,246
Potential increase in number of preferred shares outstanding due to the long term incentive plan	14,358,052	7,978,234
Total	<u>1,151,131,479</u>	<u>1,136,045,480</u>
Earnings per share – Diluted (Common and Preferred Shares) - in R\$	<u>0.52</u>	<u>0.05</u>

NOTE 19 – LONG-TERM INCENTIVE PLANS

a) Restricted Shares and Performance Shares Plan:

Quantity on January 01, 2016	<u>12,525,256</u>
Granted	13,357,922
Forfeited/Canceled	(3,046,593)
Exercised	(2,403,094)
Quantity on December 31, 2016	<u>20,433,491</u>
Granted	3,170,952
Forfeited/Canceled	(1,522,833)
Exercised	(1,988,573)
Quantity on June 30, 2017	<u>20,093,037</u>

In 2017, the Company approved changes to the long-term incentive plan allowing the use of multiple forms of stock-based compensation and changing the vesting period for each grant to three years. In 2017 Restricted Shares and Performance Shares were granted.

b) Stock Options Plan:

	June 30, 2017		December 31, 2016	
	Number of shares	Average exercise price in the year	Number of shares	Average exercise price in the year
		R\$		R\$
Available at beginning of the year	569,115	16.64	1,074,246	18.36
Options Forfeited	(259,376)	14.74	(505,131)	20.49
Available at the end of the period	<u>309,739</u>	<u>18.05</u>	<u>569,115</u>	<u>16.64</u>

The average market price of the share in the six month period ended on June 30, 2017 was R\$11.06 (R\$7.68 in the year ended December 31, 2016).

As of June 30, 2017 the Company has a total of 8,807,582 preferred shares in treasury. These shares may be used for serving this plan.

Exercise price	Quantity	Average period of grace (in years)	Average exercise price	Number exercisable at June 30, 2017*
			R\$	
R\$ 14.39	40,873	1.7	13.84	40,873
R\$ 10,58 a R\$ 29,12	268,866	5.0	18.69	13,660
	<u>309,739</u>			<u>54,533</u>

*The total of options vested that are exercisable on June 30, 2017 is 54,533 (57,678 on December 31, 2016).

During the three and six month period ended on June 30, 2017, the long-term incentive plans costs recognized in income were R\$7,564 and R\$12,393 (R\$9,362 and R\$16,113 on June 30, 2016).

The Company recognizes costs of employee compensation based on the fair value of the options granted, considering their fair value on the date of granting. The Company uses the Black-Scholes model for determining the fair value of the options. There were no options granted for this plan in the six-month period ended June 30, 2017 and for the year ended December 31, 2016.

c) Other Plans – North America

The Company terminated the existing long-term incentive plan (“LTIP”), and no further awards will be granted under the LTIP. All outstanding awards under the LTIP will remain outstanding until either exercised, forfeited or they expire. On June 30, 2017, there were 147,210 cash settled SARs - Share Appreciation Rights outstanding under the LTIP. These awards are accrued over the vesting period of 4 years. As of June 30, 2017 and December 31, 2016, the outstanding liability for share-based payment transactions included in other non-current liabilities of the subsidiaries in North America was US\$6 thousand (R\$19.8) and US\$10 thousand (R\$32.6), respectively.

NOTE 20 – EXPENSES BY NATURE

The Company opted to present its Consolidated Statement of Income by function. As required by IAS 1, the Consolidated Statement of Income by nature is as follows:

	For the three-month periods ended		For the six-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation and amortization	(526,175)	(617,304)	(1,054,233)	(1,298,492)
Labor expenses	(1,413,710)	(1,691,137)	(2,776,300)	(3,530,418)
Raw material and consumption material	(5,722,512)	(6,228,472)	(11,106,753)	(12,386,840)
Freight	(566,743)	(628,560)	(1,096,632)	(1,221,557)
Other expenses/income	(381,716)	(549,261)	(757,698)	(1,153,331)
Reversal of contingent liabilities, net	-	-	929,711	-
Results in operations with subsidiaries	(72,478)	(105,048)	(72,478)	(105,048)
	<u>(8,683,334)</u>	<u>(9,819,782)</u>	<u>(15,934,383)</u>	<u>(19,695,686)</u>
Classified as:				
Cost of sales	(8,229,142)	(9,165,474)	(16,033,919)	(18,437,307)
Selling expenses	(133,297)	(175,609)	(271,743)	(389,941)
General and administrative expenses	(287,139)	(401,965)	(588,186)	(831,519)
Other operating income	70,968	54,833	139,934	102,057
Other operating expenses	(32,246)	(26,519)	(37,702)	(33,928)
Reversal of contingent liabilities, net	-	-	929,711	-
Results in operations with subsidiaries	(72,478)	(105,048)	(72,478)	(105,048)
	<u>(8,683,334)</u>	<u>(9,819,782)</u>	<u>(15,934,383)</u>	<u>(19,695,686)</u>

NOTE 21 – FINANCIAL INCOME

	For the three-month periods ended		For the six-month periods ended	
	June 30, 2017	Jun 30, 2016	June 30, 2017	Jun 30, 2016
Income from short-term investments	19,400	26,816	49,692	67,694
Interest income and other financial incomes	24,687	18,206	76,222	53,118
Financial income total	44,087	45,022	125,914	120,812
Interest on debts	(346,261)	(374,345)	(703,772)	(771,580)
Monetary variation and other financial expenses	(107,519)	(109,855)	(213,245)	(237,722)
Financial expenses total	(453,780)	(484,200)	(917,017)	(1,009,302)
Exchange variations, net	(96,389)	433,186	(21,351)	942,616
Reversal of monetary update of contingent liabilities, net	-	-	369,819	-
Gains and Losses on derivatives, net	1,125	(16,700)	(8,606)	(38,220)
Financial result, net	<u>(504,957)</u>	<u>(22,692)</u>	<u>(451,241)</u>	<u>15,906</u>

NOTE 22 – SEGMENT REPORTING

In the fourth quarter of 2016, the Company made a change in the composition of its segments, with changes with effect as of 2016 year end, with the objective of obtaining greater strategic, operational and management synergies in the markets of South America and North America. The change relates to the jointly controlled entity Gerdau Metaldom Corp., in the Dominican Republic, which became part of the business segment South America and thus its results and equity are no longer presented in the North America segment and are from now on presented in the South America segment. For disclosure purposes, the comparative information has been modified regarding the originally presented information, in order to reflect the changes approved by the Gerdau Executive Committee, according to the criteria established by IFRS 8.

Information by business segment:

	Brazil Operation		North America Operation		South America Operation		Special Steels Operation		Eliminations and Adjustments		For the three-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	3,000,033	3,047,581	3,903,389	4,291,221	967,572	1,210,158	1,615,652	1,962,971	(380,793)	(262,953)	9,165,853	10,248,778
Cost of sales	(2,685,666)	(2,701,365)	(3,171,001)	(3,542,078)	(896,524)	(1,025,395)	(1,364,380)	(1,752,612)	380,247	(257,876)	8,229,142	(9,166,474)
Gross profit	316,367	344,116	191,388	349,143	118,048	184,763	251,454	210,359	(546)	(5,077)	936,711	1,082,304
Selling, general and administrative expenses	(136,288)	(161,564)	(145,294)	(201,192)	(50,161)	(60,704)	(46,900)	(79,028)	(41,793)	(75,086)	(420,456)	(577,274)
Other operating income (expenses)	3,126	(683)	4,848	194	1,192	17,056	2,344	(53)	27,212	11,800	38,722	28,314
Results in operations with subsidiary	-	-	-	(11,363)	-	-	-	-	(72,478)	(105,048)	(72,478)	(105,048)
Equity in earnings of unconsolidated companies	-	-	-	(17,680)	-	-	-	-	4,743	4,432	(2,429)	(109)
Operational income (Loss) before financial income (expenses) and taxes	243,205	181,809	33,262	136,782	74,770	147,837	211,709	131,278	(82,862)	(168,799)	480,090	428,887
Financial result, net	(138,672)	(161,625)	(10,301)	(18,743)	(9,349)	(33,786)	(33,178)	(40,241)	(313,457)	(231,694)	(564,967)	(22,692)
Income (Loss) before taxes	104,533	20,184	22,961	118,039	65,421	114,051	178,531	91,037	(396,195)	(62,815)	(124,867)	406,195
Income and social contribution taxes	(25,370)	(6,281)	26,893	(16,510)	(27,690)	(35,044)	(52,155)	(19,762)	179,706	(249,329)	101,384	(526,980)
Net income (Loss)	79,163	13,903	49,854	101,528	37,731	78,947	126,376	71,275	(216,613)	(186,514)	76,517	79,209
Supplemental information:												
Net sales between segments	337,450	212,212	15,526	23,344	1,669	1,140	26,148	26,257	-	-	380,793	262,953
Depreciation/amortization	229,860	220,484	171,583	215,304	38,326	46,211	86,406	135,305	-	-	526,175	617,304
Investments in associates and jointly-controlled entities	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	16,613,582	18,672,770	16,862,983	16,499,784	4,928,132	5,582,926	11,994,792	11,970,203	4,175,636	1,949,458	54,175,125	54,635,141
Total liabilities	9,282,603	10,761,705	3,482,403	3,407,444	1,123,596	1,651,590	6,129,389	6,519,255	8,811,357	8,020,494	28,829,348	30,360,488

Information by business segment:

	Brazil Operation		North America Operation		South America Operation		Special Steels Operation		Eliminations and Adjustments		For the six-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	5,844,283	5,740,963	7,527,481	8,588,010	1,971,050	2,446,179	2,972,208	4,133,230	(690,595)	(575,093)	17,624,517	20,333,289
Cost of sales	(5,168,209)	(5,175,413)	(7,228,125)	(7,927,564)	(1,750,852)	(2,056,682)	(2,579,346)	(3,836,590)	690,613	508,942	(16,033,939)	(18,427,307)
Gross profit	676,074	565,550	309,356	660,446	220,198	389,497	392,862	296,640	18	(6,151)	1,590,578	1,905,982
Selling, general and administrative expenses	(276,645)	(355,029)	(294,787)	(421,917)	(102,822)	(132,035)	(88,391)	(180,017)	(97,284)	(132,462)	(859,929)	(1,221,460)
Other operating income (expenses)	5,252	3,084	10,093	3,865	6,497	17,164	7,891	10,597	72,499	32,819	102,332	168,229
Results in operations with subsidiary	-	-	-	-	-	-	-	-	(72,478)	(105,048)	(72,478)	(105,048)
Reversal of contingent liabilities, net	-	-	-	-	-	-	-	-	929,711	929,711	929,711	(7,690)
Equity in earnings of unconsolidated companies	-	-	(36,566)	(34,928)	17,518	16,721	6,187	-	-	9,620	10,507	(3,239)
Operational income (Loss) before financial income (expenses) and taxes	404,681	214,205	(19,902)	197,466	144,391	291,557	318,639	127,220	842,086	(200,335)	1,686,805	629,913
Financial result, net	(299,859)	(327,651)	(22,376)	(22,984)	(32,952)	(45,054)	(60,922)	(84,727)	(38,862)	(496,322)	(631,241)	(5,586)
Income (Loss) before taxes	105,822	(113,446)	(43,278)	174,482	108,799	246,503	257,717	42,493	811,584	295,987	1,235,654	645,819
Income and social contribution taxes	(22,551)	28,135	80,563	(17,520)	(47,725)	(73,426)	(78,155)	(14,477)	(263,925)	(597,962)	(123,593)	(552,424)
Net income (Loss)	78,471	(85,311)	38,280	191,812	61,074	173,073	179,562	28,016	547,659	(211,975)	960,061	63,395
Supplemental information:												
Net sales between segments	611,325	482,449	30,580	46,181	3,110	2,572	45,580	43,891	-	-	690,595	575,093
Depreciation/amortization	456,958	435,788	344,050	452,859	81,602	96,045	171,623	313,800	-	-	1,054,233	1,298,492
Investments in associates and jointly-controlled entities	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	16,613,582	18,672,770	16,862,983	16,499,784	4,928,132	5,582,926	11,994,792	11,970,203	4,175,636	1,949,458	54,175,125	54,635,141
Total liabilities	9,282,603	10,761,705	3,482,403	3,407,444	1,123,596	1,651,590	6,129,389	6,519,255	8,811,357	8,020,494	28,829,348	30,360,488

The main products by business segment are:

Brazil Operation: rebar, bars, shapes, drawn products, billets, blooms, slabs, wire rod, structural shapes and iron ore.

North America Operation: rebar, bars, wire rod, light and heavy structural shapes.

South America Operation: rebar, bars and drawn products.

Special Steel Operation: stainless steel, round, square and flat bars, wire rod.

The column of eliminations and adjustments includes the elimination of sales between segments applicable to the Company in the context of the Condensed Consolidated Interim Financial Statements.

The Company's geographic information with net sales classified according to the geographical region where the products were shipped is as follows:

Information by geographic area:

	Brazil		Latin America ⁽¹⁾		North America ⁽²⁾		Europe/Asia		For the three-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	3,248,268	3,219,259	1,159,501	1,503,769	4,620,672	4,908,157	137,412	617,593	9,165,853	10,248,778
Total assets	16,613,582	18,672,770	16,862,983	16,499,784	4,928,132	5,582,926	11,994,792	11,970,203	4,175,636	1,949,458
Net income (Loss)	79,163	13,903	49,854	101,528	37,731	78,947	126,376	71,275	(216,613)	(186,514)

⁽¹⁾ Does not include operations of Brazil

⁽²⁾ Does not include operations of Mexico

Information by geographic area:

	Brazil		Latin America ⁽¹⁾		North America ⁽²⁾		Europe/Asia		For the six-month periods ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	6,149,229	5,919,982	2,332,667	3,020,586	8,895,179	9,935,723	247,442	1,456,998	17,624,517	20,333,289
Total assets	16,613,582	18,672,770	16,862,983	16,499,784	4,928,132	5,582,926	11,994,792	11,970,203	4,175,636	1,949,458
Net income (Loss)	78,471	(85,311)	38,280	191,812	61,074	173,073	179,562	28,016	547,659	(211,975)

⁽¹⁾ Does not include operations of Brazil

⁽²⁾ Does not include operations of Mexico

IFRSs require that the Company disclose the net sales per product unless the information is not available and the cost to obtain it would be excessive. Accordingly, management does not consider this information useful for its decision making process, because it would entail aggregating sales for different markets with different currencies, subject to the effects of exchange differences. Steel consumption patterns and the pricing dynamics of each product or group of products in different countries and different markets within these countries are poorly correlated, and thus the information would not be useful and would not serve to conclude on historical trends and progresses. In light of this scenario and considering that the information on net sales by product is not maintained on a consolidated basis and the cost to obtain net sales per product would be excessive compared to the benefits that would be derived from this information, the Company is not presenting the breakdown of net sales by product.

NOTE 23 – IMPAIRMENT OF ASSETS

The impairment test of goodwill and other long-lived assets is tested based on the analysis and identification of facts or circumstances that may involve the need to perform the impairment test. The Company performs impairment tests of goodwill and other long-lived assets, based on projections of discounted cash flows, which take into account assumptions such as: cost of capital, growth rate and adjustments applied to flows in perpetuity, methodology for working capital determination, investment plans, and long-term economic-financial forecasts.

To determine the recoverable amount of each business segment, the Company uses the discounted cash flow method, taking as basis, financial and economic projections for each segment. The projections are updated to take into consideration any observed changes in the economic environment of the market in which the Company operates, as well as premises of expected results and historical profitability of each segment.

The goodwill impairment test allocated to business segments is performed annually in December, also being performed at interim reporting dates if events or circumstances indicate possible impairment. In the test performed for the year ended on 2016, the Company performed a sensitivity analysis in the assumptions of discount rate and perpetuity growth rate, due to the potential impact in the discounted cash flows, therefore, an increase of 0.5% in the discount rate to discount the cash flow of each segment would result in recoverable amounts that are below the book value and/or that exceeded the book value as shown below: a) North America: below book value of R\$872 million; b) Special Steel: exceeded book value by R\$1,170 million; c) South America: exceeded book value by R\$486 million; and d) Brazil: exceeded the book value by R\$425 million. On the other hand, a decrease of 0.5 % in the perpetuity growth rate of the cash flow of each business segment would result in a recoverable amount below the book value and / or that exceeded the book value as shown below: a) North America: below the book value by R\$661 million; b) Special Steel: exceeded the book value by R\$1,301 million; c) South America: exceeded the book value by R\$561 million; and d) Brazil: exceeded the book value by R\$673 million.

The Company concluded that there are no indications that an impairment test of goodwill and other long-lived assets for the period ended on June 30, 2017 is required.

The Company will maintain over 2017 its constant monitoring of the steel market in order to identify any deterioration, significant drop in demand from steel consuming sectors (notably automotive and construction), stoppage of industrial plants or activities relevant changes in the economy or financial market that result in increased perception of risk or reduction of liquidity and refinancing capacity. Although the projections made by the Company provide a more challenging scenario than that in recent years, the events mentioned above, if manifested in a greater intensity than that anticipated in the assumptions made by management, may lead the Company to revise its projections of value in use and eventually result in impairment losses.

NOTE 24 - SUBSEQUENT EVENTS

D) On July 20, 2017, Gerdau S.A. and Metalúrgica Gerdau S.A. issued a material fact, in connection with the application to register the public stock tender offer to increase interest through the exchange of common shares for preferred shares issued by Gerdau S.A. (“Offer”) and, supplementing the Material Fact notice dated March 8, 2017; complemented by the Notice to the Market dated March 13, 2017; by the Material Fact notice dated March 22, 2017; and by the Notice to the Market dated May 22, 2017, inform to their shareholders and the general market that they received on July 19, 2017 Official Letter 198/2017/CVM/SRE/GER-1 from the Brazilian Securities Commission (“CVM”) granting the registration of the Offer and in view of the decision of the Board of Commissioners of the CVM, in a meeting held on June 13, 2017, determining the maintenance of the proportionate limit for the exchange of common (GGBR3) and preferred (GGBR4) shares issued by the Company, as provided for in Article 15 of CVM Instruction 361/2002, the Offer is subject to adherence by the holders of at least thirty nine million, five hundred fifty thousand and four hundred seventy-four (39,550,474) common shares issued by the Company, which corresponds to two-thirds (2/3) of the free-float common shares. On July 21, 2017 the Offer notice was published, stating it was valid between July 22, 2017 and August 22, 2017, date on which the auction was performed and as a result of that Metalúrgica Gerdau S.A. acquired 70,714,542 common shares through swap of 70,714,542 preferred shares. In accordance with applicable regulations and the Offer Notice, from August 23, 2017 to November 23, 2017 (inclusive), any shareholder holding common shares issued by Gerdau S.A. who wishes to swap their shares may do so by following the procedures described in the Offer Notice. The notice and other documents related to the Offer, as applicable, were made available after their publication on the websites of the Companies, of Banco Bradesco BBI

S.A., of the CVM and of B3 S.A. - Brasil, Bolsa, Balcão and at the headquarters of the Companies, of Bradesco BBI, of the CVM and of B3.

II) On August 7, 2017, the Company proposed the anticipation of the mandatory minimum dividend on income of the current fiscal year, which was approved by the Board of Directors on August 8, 2017. This anticipation, stipulated in its Bylaws, was paid in the form of dividends and calculated and credited on the shareholding interest owned on August 21, 2017, in the amount of R\$ 34.2 million (R\$ 0.02 per common and preferred share), with payment performed on September 1, 2017.

III) On August 24, 2017, the Company issued a material fact stating that consistent with this process of transformation, as of January 1, 2018, the members of the Gerdau Johannpeter family that currently serve on the Executive Board – André Bier Gerdau Johannpeter, Chief Executive Officer (CEO), and Claudio Johannpeter and Guilherme Chagas Gerdau Johannpeter, both Executive Vice-Presidents – will serve exclusively on the Boards of Directors of which they are already members. As members of the Boards of Directors, and drawing on their executive experience, the members of the Gerdau Johannpeter family will sharpen their focus on developing Gerdau's medium and long-term strategies, aiming to create value to all stakeholders of the company and support its executives in implementing such strategies. To lead this new executive stage, starting January 2018, the Board of Directors has chosen Gustavo Werneck, currently Executive Officer of the Brazil Business Division, as the new CEO of the Companies. Prior to serving as Executive Officer of the Brazil Business Division, he served as Corporate Director of Information Technology and as Industrial Director of Gerdau in India, among other positions.

IV) On September 15, 2017, the Executive Committee of the Company approved the extension for two years more of a global credit line, called "Senior Unsecured Global Working Capital Credit Agreement". Gerdau S.A. provides guarantees, jointly and severally with its subsidiaries Gerdau Aços Longos S.A., Gerdau Aço Minas S.A., and Gerdau Aços Especiais S.A., to its associates, jointly-controlled entities and subsidiaries. This credit line has the amount of up to US\$ 800 million and has as structuring bank the Banco Santander (Brazil) S.A. and creditor banks by 9 financial institutions, all first-rate, to be timely contracted as individual procedures for credit approval, considering terms and conditions stipulated by Gerdau S.A.

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