UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Fiscal Year Ended December 31, 2014**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14878

GERDAU S.A.

(Exact name of Registrant as specified in its charter)

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

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

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

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

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

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

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

The total number of issued shares of each class of stock of GERDAU S.A. as of December 31, 2014 was:

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

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

x Yes o No

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

o Yes x No

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

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

x Yes o No

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

o Yes x No

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

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

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

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

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

o Item 17 o Item 18

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

o Yes x No

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INTRODUCTION

Unless otherwise indicated, all references herein to:

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

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

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

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

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

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

(vii) Consolidated shipments means the combined volumes shipped from all our operations in Brazil, Latin America, North America and Europe, excluding our joint venture and associate companies;

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

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

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

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

The Company has prepared the consolidated financial statements included herein in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The following investments are accounted for following the equity method: Bradley Steel Processor and MRM Guide Rail, all in North America, of which Gerdau Ameristeel holds 50% of the total capital, the investment in Armacero Industrial y Comercial Limitada, in Chile, in which the Company holds a 50% stake, the investment in the holding company Gerdau Metaldom Corp., in which the Company holds a 45% stake, in the Dominican Republic, the investment in the holding company Corsa Controladora, S.A. de C.V., in which the Company holds a 49% stake, which in turn holds the capital stock of Aceros Corsa S.A. de C.V., in Mexico, the investment in the holding company Corporacion Centroamericana del Acero S.A., in which the Company holds a 30% stake, which in turn holds the capital stock of Aceros de Guatemala S.A., in Guatemala, the investment in Gerdau Corsa S.A.P.I. de C.V., in Mexico, in which the Company holds a 50% stake and the investment in Dona Francisca Energética S.A, in Brazil, in which the Company holds a 51.82% stake.

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

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

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

- general economic, political and business conditions in our markets, both in Brazil and abroad, including demand and prices for steel products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our ability to obtain financing on satisfactory terms;
- prices and availability of raw materials;
- changes in international trade;
- changes in laws and regulations;

- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- other factors identified or discussed under Risk Factors.

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

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

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ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected financial information for the Company included in the following tables should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and Operating and Financial Review and Prospects appearing elsewhere in this Annual Report. The consolidated financial data of the Company as of and for each of the years ended on December 31, 2014, 2013, 2012, 2011 and 2010 are derived from the financial statements prepared in accordance with IFRS and presented in Brazilian Reais.

IFRS Summary Financial and Operating Data

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

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

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

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

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

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

(2) Total current assets less total current liabilities.

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

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

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

Exchange rates from U.S. dollars to Brazilian reais

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

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

Dividends

The Company s total authorized capital stock is composed of common and preferred shares. As of December 31, 2014, the Company had 571,929,945 common shares and 1,132,613,562 non-voting preferred shares outstanding (excluding treasury stock).

The following table details dividends and interest on equity paid to holders of common and preferred stock since 2010. The figures are expressed in Brazilian reais and U.S. dollars. The exchange rate used for conversion to U.S. dollars was based on the date of the resolution approving the dividend.

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

Period	Date of Resolution	R$ per Share Common or Preferred Stock	$ per Share Common or Preferred Stock
1st Quarter 2010 (1)	05/06/2010	0.1200	0.0654
2st Quarter 2010	08/05/2010	0.1400	0.0798
3st Quarter 2010 (1)	11/05/2010	0.1200	0.0714
4st Quarter 2010	03/03/2011	0.0600	0.0363
1st Quarter 2011	05/05/2011	0.0600	0.0370
2nd Quarter 2011 (1)	08/04/2011	0.0900	0.0571
3rd Quarter 2011	11/10/2011	0.1200	0.0681
4th Quarter 2011	02/15/2012	0.0800	0.0466
1st Quarter 2012	05/02/2012	0.0600	0.0313
2nd Quarter 2012	08/02/2012	0.0900	0.0440
3rd Quarter 2012	11/01/2012	0.0700	0.0345
4th Quarter 2012	02/21/2013	0.0200	0.0101
1st Quarter 2013	05/07/2013	0.0200	0.0099
2nd Quarter 2013 (1)	08/01/2013	0.0700	0.0305
3rd Quarter 2013 (1)	10/31/2013	0.1200	0.0545
4th Quarter 2013	02/21/2014	0.0700	0.0296
1st Quarter 2014 (1)	05/30/2014	0.0700	0.0312
2nd Quarter 2014	08/21/2014	0.0600	0.0265
3rd Quarter 2014 (1)	11/27/2014	0.0500	0.0199
4th Quarter 2014	03/26/2015	0.0700	0.0219

(1) Payment of interest on equity.

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

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

B. CAPITALIZATION AND INDEBTEDNESS

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

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

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

D. RISK FACTORS

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

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

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

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

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

In 2007, the international rating agencies, Fitch Ratings and Standard & Poor s, classified the Company s credit risk as investment grade , enabling the Company to access more attractive borrowing rates. In the beginning of December 2011, Moody s assigned the Investment Grade rating Baa3 for all of Gerdau s ratings, with a stable perspective. Since then, Gerdau has the Investment Grade of the three principal rating agencies: Fitch Ratings, Moody s and Standard & Poor s.

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

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

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

The Company s degree of leverage could have important consequences, including the following:

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

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

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

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

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

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

- Pursuant to the Company s financial agreements, the penalty for non-compliance with prescribed financial covenants can lead to a declaration of default by the creditors of the relevant loans. Furthermore, R$ 15.4 billion of the Company s total indebtedness as of December 31, 2014 was subject to cross-default provisions, with threshold amounts varying from US$10.0 million to US$100.0 million, depending on the agreement. Thus, there is a risk that an event of default in one single debt agreement can potentially trigger events of default in other debt agreements.

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

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

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

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

- The Company and its subsidiary, Gerdau Aços Longos S.A. and Gerdau Açominas S.A. are parties in legal proceedings related to Tax on Circulation of Goods and Services (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS*) discussions, mostly related to credit rights and aliquot differences. The total amount of the discussions is R$997 million.

- The Company and its subsidiaries, Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are part in legal proceedings discussing taxation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Profits (Contribuição Social sobre o Lucro - CSLL) over profits generated abroad, in the amount of R$1,386 million.

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

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

Unexpected equipment failures may lead to production curtailments or shutdowns.

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

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as fires, explosions or violent weather conditions. The Company s manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as its electric arc furnaces, continuous casters, gas-fired reheat furnaces, rolling mills and electrical equipment, including high-output transformers, and this equipment may, on occasion, incur downtime as a result of unanticipated failures. The Company has experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect the Company s productivity and results of operations. Moreover, any interruption in production capability may require the Company to make additions to fixed assets to remedy the problem, which would reduce the amount of cash available for operations. The Company s insurance may not cover the losses. In addition, long-term business disruption could harm the Company s reputation and result in a loss of customers, which could materially adversely affect the business, results of operations, cash flows and financial condition.

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

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

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

Our mineral resource estimates may materially differ from mineral quantities that we may be able to actually extract.

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

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

When making determinations about whether to advance any projects to development, the Company relies upon estimated calculations as to the mineralized material on its properties. Since the Company has not conducted a feasibility study demonstrating proven or probable reserves, estimates of mineralized material presented are less certain than would be the case if the estimates were made in accordance with the SEC-recognized definition of proven and probable reserves. Furthermore, until ore is actually mined and processed, any mineral reserves and grades of mineralization must be considered as estimates only. These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure that these mineralized material estimates will be accurate or that this mineralized material can be mined or processed profitably and any decision to move forward with development is inherently risky. Further, there can be no assurance that any minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or production scale. Any material changes in estimates of mineralized material will affect the economic viability of placing a property into production and such property s return on capital.

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

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

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

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- the Company s efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including availability of overburden and waste disposal areas as well as reliable power and water supplies;
- the Company may fail to obtain, lose, or experience delays or higher than expected costs in obtaining or renewing the required permits, authorizations, licenses, concessions and/or regulatory approvals to build or continue a project; and
- changes in market conditions, laws or regulations may make a project less profitable than expected or economically or otherwise unfeasible.

Any one or a combination of the factors described above may materially and adversely affect the Company.

Drilling and production risks could adversely affect the mining process.

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

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

If a mining project proves not to be economically feasible by the time we are able to profit from it, the Company may incur substantial losses and be obliged to take write-offs. In addition, potential changes or complications involving metallurgical and other technological processes arising during the life of a project may result in delays and cost overruns that may render the project not economically feasible.

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

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

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

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

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

By having such power, the controlling shareholder can make decisions that may conflict with the interest of the Company and other shareholders.

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

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

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

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

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

The main metal input for the Company s mini-mills, which mills accounted for 78.0% of total crude steel output in 2014 (in volume), is steel scrap. Although international steel scrap prices are determined essentially by scrap prices in the U.S. local market, because the United States is the main scrap exporter, scrap prices in the Brazilian market are set by domestic supply and demand. The price of steel scrap in Brazil varies from region to region and reflects demand and transportation costs. Should scrap prices increase significantly without a corresponding increase in finished steel selling prices, the Company s profits and margins could be adversely affected. An increase in steel scrap prices or a shortage in the supply of scrap to its units would affect production costs and potentially reduce operating margins and revenues.

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

When the prices of raw materials, particularly iron ore and coking coal, increase, and the Company needs to produce steel in its integrated facilities, the production costs in its integrated facilities also increase. The Company uses iron ore to produce liquid pig iron at its mills Ouro Branco, Barão de Cocais and Divinópolis in the state of Minas Gerais, as well as Siderperu mill, in Peru. Iron ore is also used to produce sponge iron at the Usiba mill in the state of Bahia.

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

The Company has iron ore mines in the state of Minas Gerais, Brazil. To reduce the exposure to iron ore price volatility, the Company invested in the expansion of the production capacity of these mines, and at the end of 2012, reached 100% of the iron ore requirements of the Ouro Branco mill.

All of the Company s coking coal requirements for its Brazilian units are imported due to the low quality of Brazilian coal. Coking coal is the main energy input at the Ouro Branco mill and is used at the coking facility. Although this mill is not dependent on coke supplies, a contraction in the supply of coking coal could adversely affect the integrated operations at this site. The coking coal used in this mill is imported from Canada, the United States, Australia and Colombia. A shortage of coking coal in the international market would adversely affect the steel producing capacity of the Ouro Branco mill, and an increase in prices could reduce profit margins. The Company does not have relevant long-term supply contracts for the raw materials it uses.

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

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

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

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

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

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

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the collapse of real estate financings and the shortage of global credit. As a result, the demand for steel products suffered a decline in 2009, but since 2010 has been experiencing a gradual recovery, principally in the developing economies.

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

- Decrease in international steel prices;
- Slump in international steel trading volumes;
- Crisis in automotive industry and infrastructure sectors; and
- Lack of liquidity, mainly in the U.S. economy.

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

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

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

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

- exchange rate controls and fluctuations;

- interest rates;
- inflation;
- tax policies;
- energy shortages;
- liquidity of domestic and foreign capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other developments in Brazil s economy and government policies may adversely affect the Company and its business.

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

Brazil has experienced high inflation in the past. Since the implementation of the Real Plan in 1994, the annual rate of inflation has decreased significantly, as measured by the National Broad Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA). Inflation measured by the IPCA index was 5.8% in 2012, 5.9% in 2013 and 6.4% in 2014. If Brazil were to experience high levels of inflation once again, the country s rate of economic growth could slow, which would lead to lower demand for the Company s products in Brazil. Inflation is also likely to increase some costs and expenses which the Company may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, which could lead the cost of servicing the Company s debt denominated in Brazilian reais to increase. Inflation may also hinder its access to capital markets, which could adversely affect its ability to refinance debt. Inflationary pressures may also lead to the imposition of additional government policies to combat inflation that could adversely affect its business.

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

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

Significant depreciation in the Brazilian *real* in relation to the U.S. dollar or other currencies could reduce the Company s ability to service its obligations denominated in foreign currencies, particularly since a significant part of its net sales revenue is denominated in Brazilian reais.

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

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

The Brazilian *real* depreciated against the U.S. dollar by 8.9% in 2012. By the end of 2013 the Brazilian *real* had depreciated 14.6% against the U.S. dollar and in December of 2014 it recorded depreciation of 13.4%.

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

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

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

The steel industry is highly cyclical. Consequently, the Company is exposed to substantial swings in the demand for steel products, which in turn causes volatility in the prices of most of its products and eventually could cause write-downs of its inventories. In addition, the demand for steel products, and hence the financial condition and operating results of companies in the steel industry, including the Company itself, are generally affected by macroeconomic changes in the world economy and in the domestic economies of steel-producing countries, including general trends in the steel, construction and automotive industries. Since 2003, demand for steel products from developing countries (particularly China), the strong euro compared to U.S. dollar and world economic growth have contributed to a historically high level of prices for the Company s steel products. However, these relatively high prices may not last, especially due to expansion in world installed capacity or a new level of demand. In the second half of 2008, and especially in the beginning of 2009, the U.S. and European economies experienced a significant slow down, in turn affecting many other countries. Since then, the price has experienced a high volatility in the global market due to the overcapacity in the world steel industry and slow growth in the steel consumption. A material decrease in demand for steel or exports by countries not able to consume their production, could have a significant adverse effect on the Company s operations and prospects.

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

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

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

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

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

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

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

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

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

The Company is a steel producer that supplies both the domestic market in Brazil and a number of international markets. The Company s exports face competition from other steel producers, as well as restrictions imposed by importing countries in the form of quotas, ad valorem taxes, tariffs or increases in import duties, any of which could increase the costs of products and make them less competitive or prevent the Company from selling in these markets. There are no assurances that importing countries will not impose quotas, ad valorem taxes, tariffs or increase import duties.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. COMPANY INFORMATION

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

History

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

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

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

In 1980, the Company began to expand internationally with the acquisition of Gerdau Laisa S.A., the only long steel producer in Uruguay. In 1989 acquired the Canadian company Gerdau Ameristeel Cambridge, a producer of common long rolled steel products located in Cambridge, Ontario. In 1992, the Company acquired control of Gerdau AZA S.A., a producer of crude steel and long rolled products in Chile. Over time, the Company increased its international presence by acquiring a non-controlling interest in a rolling mill in Argentina, a controlling interest in Diaco S.A. in Colombia, and, most notably, additional interests in North America through the acquisition of Gerdau Ameristeel MRM Special Sections, a producer of special sections such as elevator guide rails and super light beams, and the former Ameristeel Corp., a producer of common long rolled products. In October 2002, through a series of transactions, the Company merged its North American steel production assets with those of the Canadian company Co-Steel, a producer of long steel, to create Gerdau Ameristeel, which is currently the second largest long steel producer in North America based on steel production volume. Gerdau Ameristeel itself has a number of operations throughout Canada and the United States, with 15 steel units and 57 fabrication shops and downstream operations.

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

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

In January 2006, through its subsidiary Gerdau Hungria Holdings Limited Liability Company, Gerdau acquired 40% of the capital stock of Corporación Sidenor S.A. for US$219.2 million (R$ 493.2 million on the acquisition date), the largest long special steel producer, forged parts manufacturer and foundry in Spain, and one of the major producers of forged parts using the stamping process in that country. In December 2006, Gerdau announced that its Spanish subsidiary Corporación Sidenor, S.A., had completed the acquisition of all outstanding shares issued by GSB Acero, S.A., a subsidiary of CIE Automotive for US$143.0 million (R$ 313.8 million on the acquisition date). In December 2008, Gerdau Hungria Holding Limited Liability Company acquired for US$288.0 million (R$ 674.0 million on the acquisition date) a 20% interest in Corporación Sidenor. With this acquisition, Gerdau became the majority shareholder (60%) in Corporación Sidenor.

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

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

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

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

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

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

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

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

In the same month, Gerdau and the Kalyani Group from India initiated an agreement to establish a joint venture for an investment in Tadipatri, India. The joint venture included an interest of 45% in Kalyani Gerdau Steel Ltd. The agreement provides for shared control of the joint venture, and the purchase price was US$73.0 million (R$ 127.3 million on the acquisition date). In May 2008, Gerdau announced the conclusion of this acquisition. On July 7, 2012, the Company obtained control of Kalyani Gerdau Steel Ltds (KGS), which the Company had an interest of 91.28% as of the control acquisition date. In 2012, until the date the Company acquired control over KGS, the Company made capital increases in KGS, which resulted in an increase of shareholding interest, going from 80.57% in December 31, 2011 to 91.28%.

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

In October 2007, Gerdau acquired 100% of Enco Materials Inc., a leading company in the market of commercial materials headquartered in Nashville, Tennessee. Enco Materials Inc. has eight units located in Arkansas, Tennessee and Georgia. The purchase price for this acquisition was US$46 million (R$ 84.9 million on the acquisition date) in cash, plus the assumption of certain liabilities of the acquired company.

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

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

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

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

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

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

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

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

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

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

B. BUSINESS OVERVIEW

Steel Industry

The world steel industry is composed of hundreds of steel producing facilities and is divided into two major categories based on the production method utilized: integrated steel mills and non-integrated steel mills, sometimes referred to as mini-mills . Integrated steel mills normally produce steel from iron oxide, which is extracted from iron ore melted in blast furnaces, and refine the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, electric arc furnaces. Non-integrated steel mills produce steel by melting in electric arc furnaces scrap steel, which occasionally is complemented by other metals such as direct-reduced iron or hot-compressed iron. According to World Steel, in 2013 (last information available), 28.2% of the total crude steel production in the world was through mini-mill process and the remaining 71.8% was through the integrated process.

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Crude Steel Production by Process in 2013*

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

Source: Worldsteel/World Steel In Figures

*Last information available

Over the past 15 years, according to worldsteel, total annual crude steel production has grown from 849 million tonnes in 2000 to 1,637 million tonnes in 2014, for an average annual increase of 5.1%.

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

Over the past year, total annual crude steel production increased by 1.2% from 1,618.5 million tonnes in 2012 to 1,637.0 million tonnes in 2014, with a 7.7% growth in the Middle East, 1.9% in North America and 1.7% growth in the European Union.

Crude Steel Production (in million tonnes)

Source: worldsteel/monthly statistics

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

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Crude Steel Production by Country in 2014 (million tonnes)

Source: worldsteel/monthly statistics

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

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

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

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

The Brazilian Steel Industry

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

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

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

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

(*) Preliminary figures

Source: Instituto Aço Brasil

Domestic demand - Historically, the Brazilian steel industry has been affected by significant variations in domestic steel demand. Although per capita domestic consumption varies in accordance with Gross Domestic Product (GDP), variations in steel consumption tend to be more accentuated than changes in the level of economic growth. In 2014, Brazilian GDP increased by 0.1%, increased by 2.3% in 2013 and grew by 1.0% in 2012.

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

In 2014, Brazilian steel exports totaled 9.5 million tonnes, representing 31.5% of total sales (domestic sales plus exports). Brazil has performed an important role in the world export market, principally as an exporter of semi-finished products (slabs, blooms and billets) for industrial use or for re-rolling into finished products. Brazilian exports of semi-finished products totaled 6.4 million tonnes in 2014, 4.8 million tonnes in 2013 and 6.3 million tonnes in 2012, representing 66.8%, 64.9% and 67.4% of Brazil s total exports of steel products, respectively.

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

(*) Preliminary figures

Source: Instituto Aço Brasil

Brazil used to be a small importer of steel products. Considering the reduction in the international steel prices during 2010, the appreciation of the Brazilian *real* against the U.S. dollar and the decrease in demand for steel products in developed countries, the Brazilian levels of imports increased from 2.3 million tonnes in 2009 to 5.9 million tonnes in 2010 (excluding the imports made by the steel mills to avoid double counting), representing 22.0% of apparent domestic consumption. In 2012, imports were 3.8 million

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