3Q17 Earnings Conference Call

André B. Gerdau Johannpeter
President & Chief Executive Officer

Harley Lorentz Scardoelli
Chief Financial Officer



Gerdau recently created a Robot Center in São José dos Campos (SP) to foster innovation inside and outside of its plants, engaging employees and local communities in the topic.

Global steel demand forecast to end the year stronger.

- Steel industry already reflecting the stronger growth in the world economy.
- Global steel demand should grow by 2.8% in 2017 (worldsteel).
- In Brazil, demand remains weak in the construction industry, an important long steel consumer, with the competitiveness of exports crucial to the industry's sustainability in the country.
- In North America, stronger steel consumption is being influenced by stronger demand from the construction and manufacturing industries, but the region continues to be affected by strong pressure from imported goods.
- In South America, the outlook is for stronger economic growth in the markets served by Gerdau.
- In the special steel segment, the highlight is the good performance of the automotive industry in Brazil, India and United States, as well as the recovery in the oil & gas industry in North America.

For 2018, the outlook is for growing steel demand.

Net sales reach R$9.5 billion in 3Q17

- Net sales grew 9% compared to 3Q16.
- Consolidated adjusted operating cash generation (EBITDA) of R$1.2 billion, in line with 3Q16.
- Consolidated adjusted net income of R$145 million, advancing 53% on the third quarter of last year.

	Units	3Q17	3Q16	Δ%	2Q17	Δ%
SHIPMENTS	'000 ton	3,865	3,668	5.4%	3,707	4.3%
NET SALES	R$ million	9,476	8,699	8.9%	9,166	3.4%
COST OF GOODS SOLD	R$ million	(8,502)	(7,652)	11.1%	(8,229)	3.3%
SG&A EXPENSES	R$ million	(397)	(483)	-17.8%	(420)	-5.5%
EBITDA Adjusted	R$ million	1,166	1,200	-2.8%	1,120	4.1%
EBITDA MARGIN Adjusted	%	12.3%	13.8%	-	12.2%	-
NET INCOME Adjusted	R$ million	145	95	52.6%	147	-1.4%
FREE CASH FLOW	R$ million	500	302	65.6%	241	107.5%

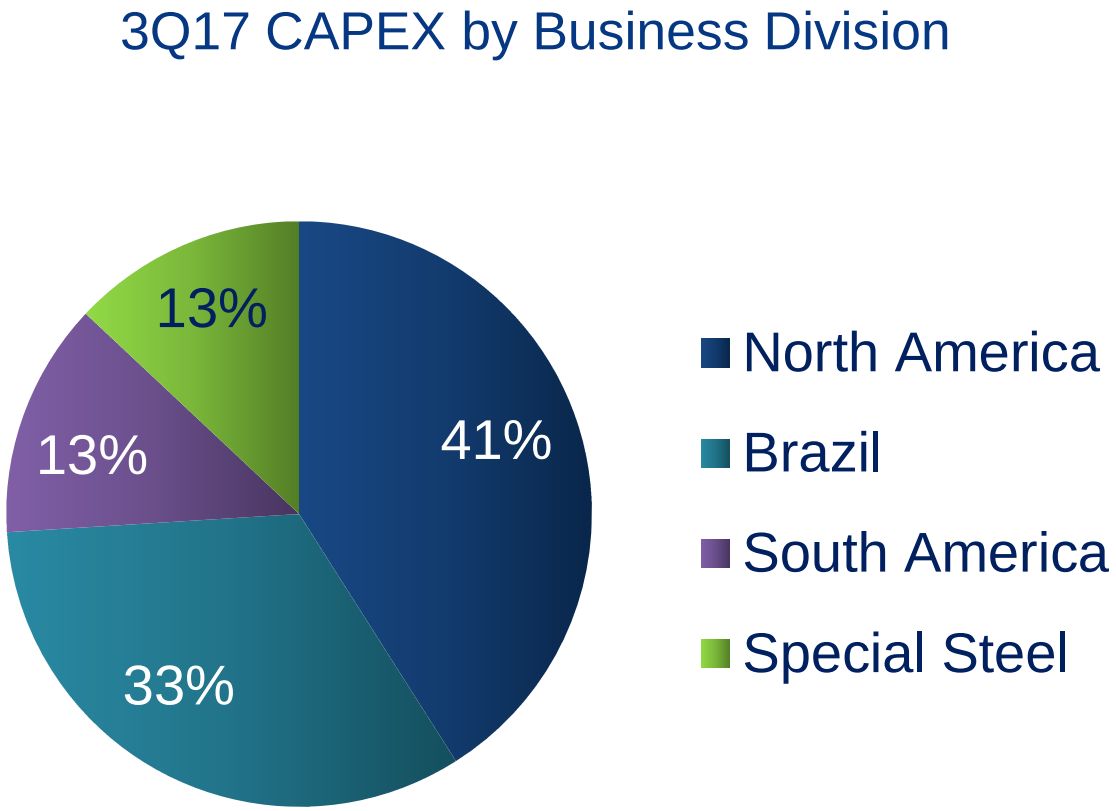
Free cash flow generation reaches R$500 million in the third quarter.

Divestments: R$3.2 billion in last four years

Year	Asset Divestments	Economic Value
2014-15	**United States:** interest in the flat steel mill Gallatin Steel and two downstream units **Spain:** one downstream unit	**R$1.1 billion**
2016	**Spain:** special steel operation **Colombia:** long steel mill and coke production units and coking coal reserves **Guatemala:** 30% interest in JV Corporación Centroamericana del Acero **United States:** downstream units and land.	**R$1.3 billion**
2017	**Colombia:** 50% interest in Gerdau Diaco, becoming a JV **United States:** special steel downstream units and plants making products for the construction industry **Chile:** operations in Chile* (conclusion depends on Chile's antitrust agency)	**R$800 million (*R$480 million refers to the operation in Chile)**

Gerdau will continue to focus its efforts on the most profitable assets

Investments of R$170 million in 3Q17

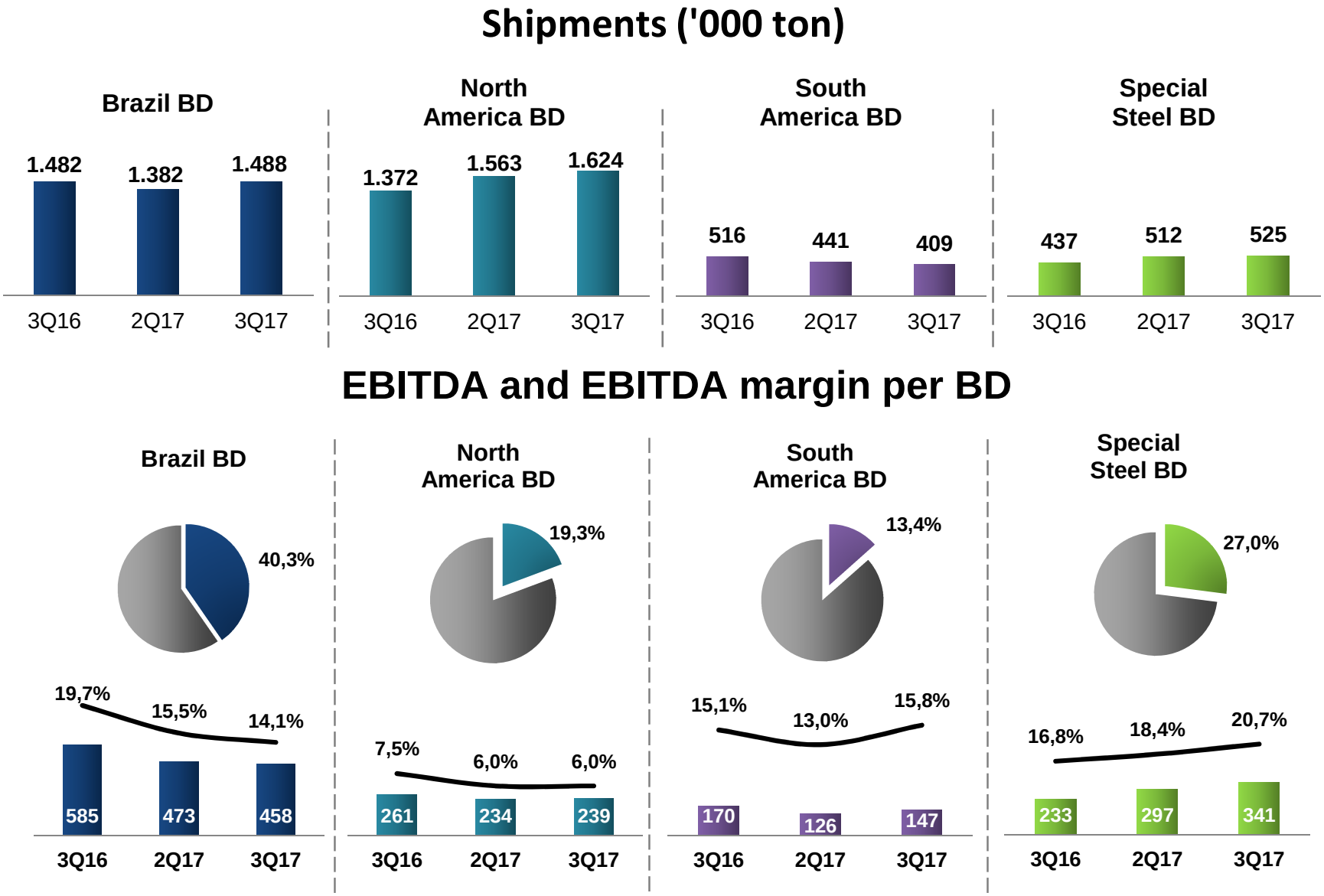


In the firts nine months, CAPEX came to R$ 602 million

Financial Results

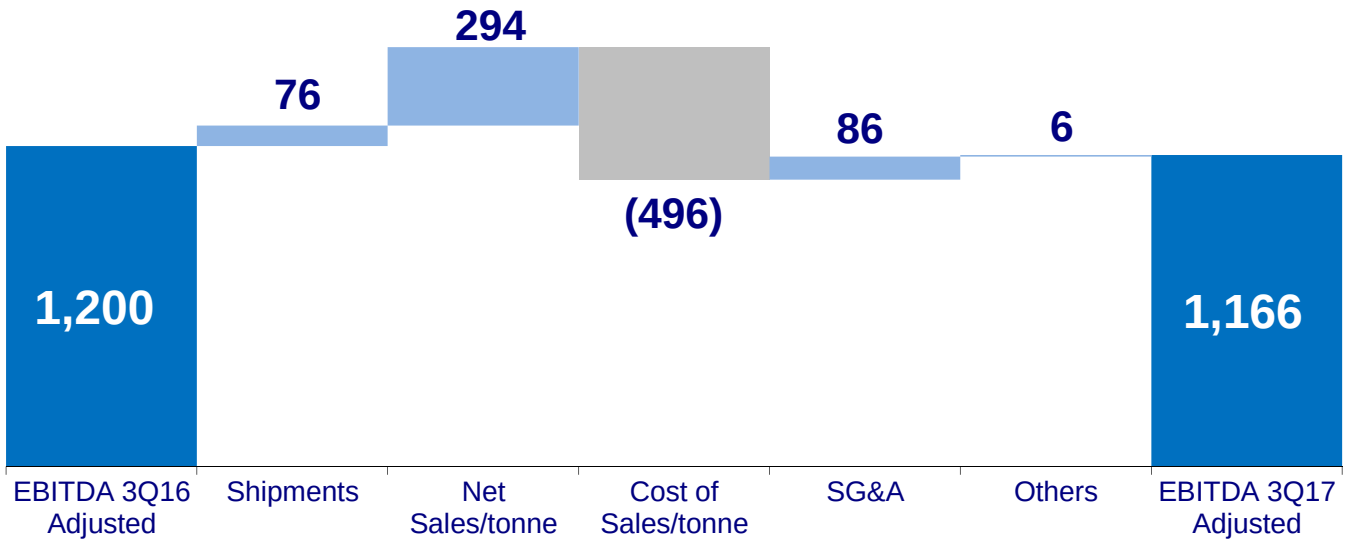
Gerdau S.A. Consolidado – IFRS

Business Divisions Results

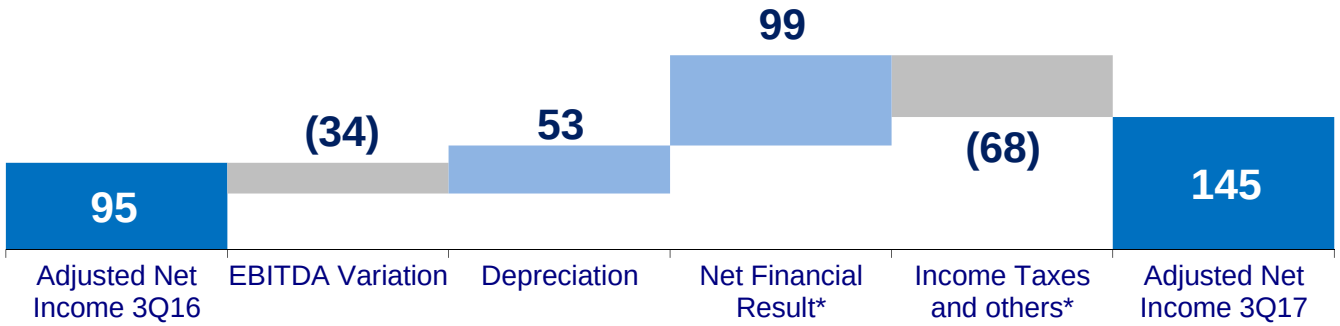


EBITDA stable despite challenging scenario

Adjusted EBITDA (R$ million)



Adjusted Net Income (R$ million)



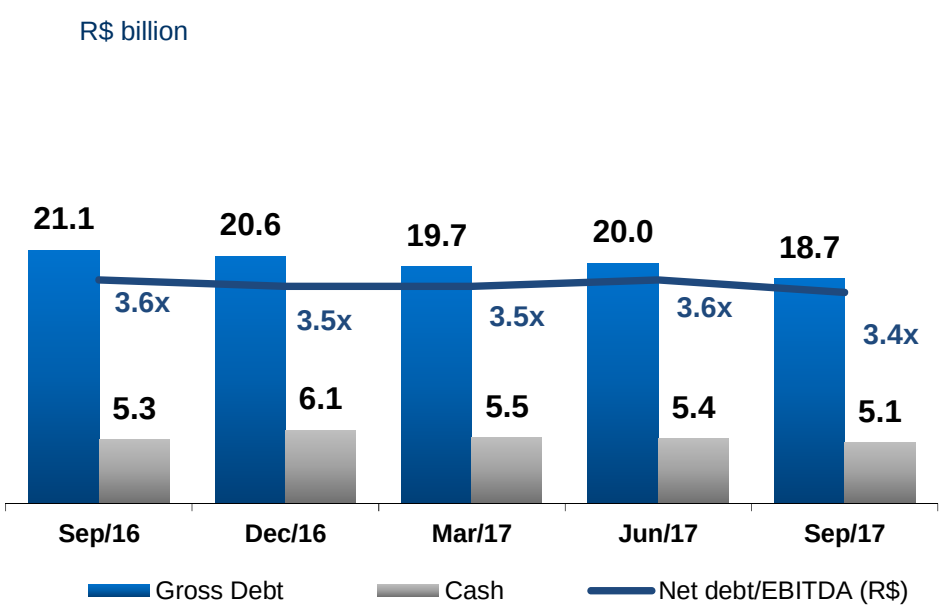
* Net of the effect from Net Investment Hedge.

Reduction in the cost of debt positively impacts 3Q17 net income

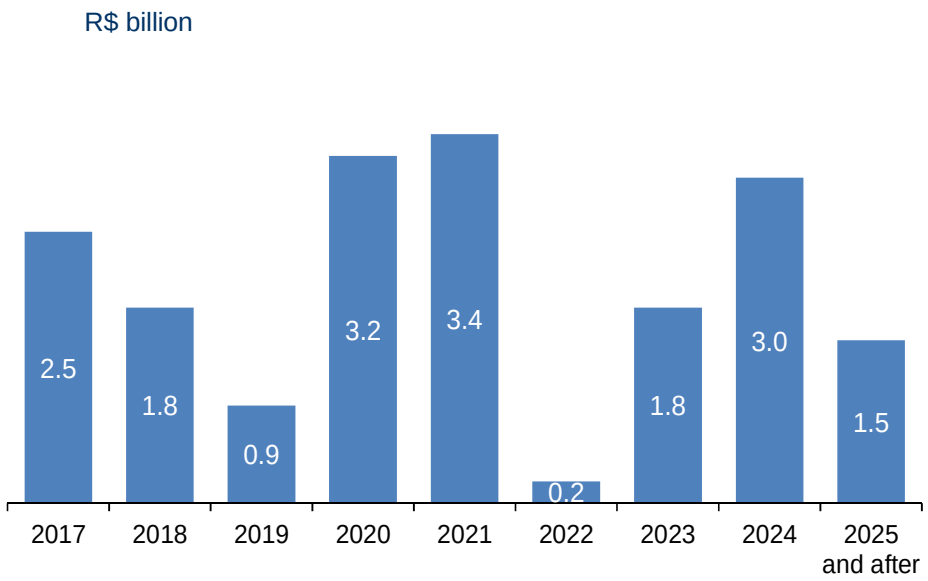
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Net debt reduction and consequent decrease in leverage

Debt & Leverage Ratio



Debt Maturity Schedule



Average Debt Cost: 6.7%

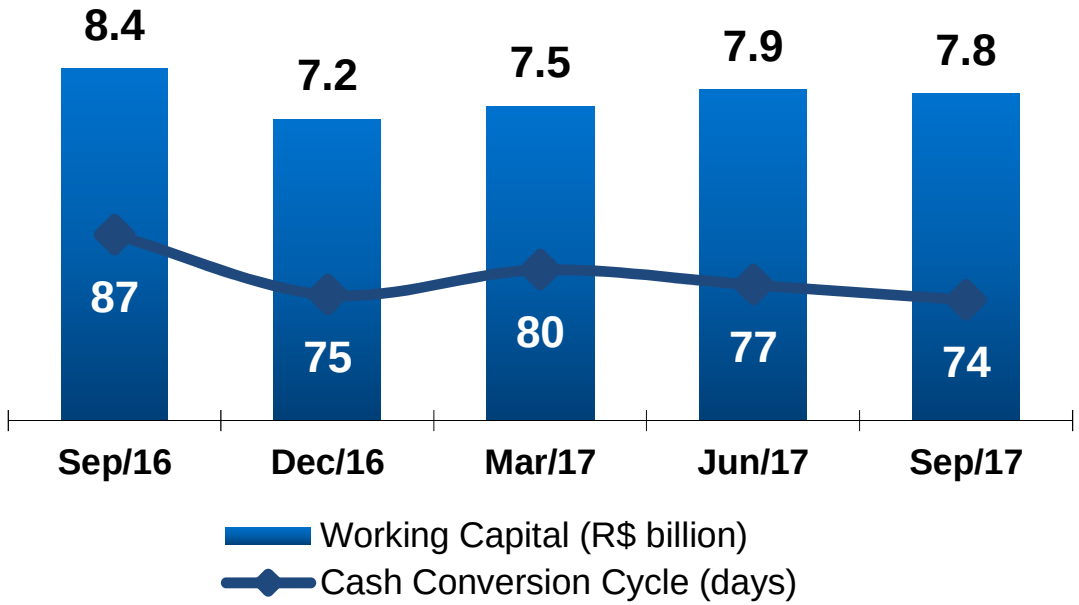
Debt Average Term: 5.3 years

(1) EBITDA in the last 12 months.

Net Debt/EBITDA ratio reduce to 3.4x

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Net sales growth of 3.4% provides a reduction in the cash conversion cycle

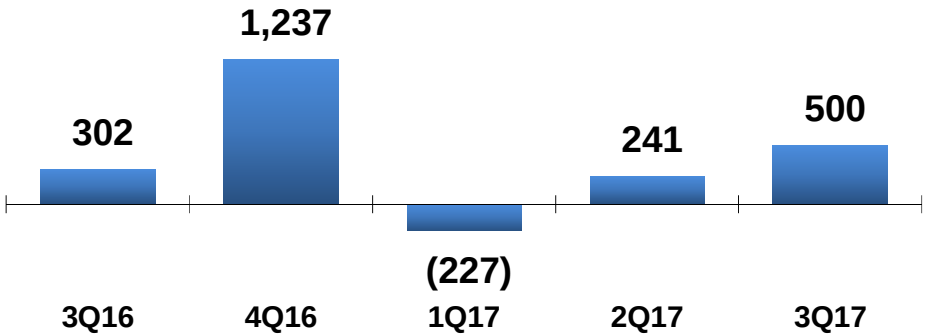


Lower cash conversion cycle in the last 12 months

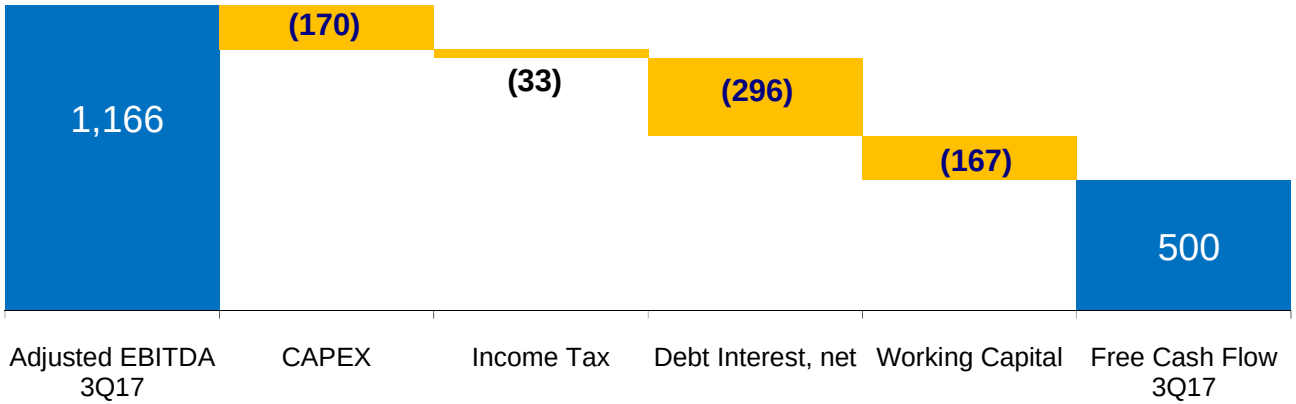
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Positive free cash flow generation in twelve months

Evolution of free cash flow (R$ million)



3Q17 Free Cash Flow (R$ million)



Free cash flow more than doubled from 2Q17 to 3Q17

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Closing remarks

- **Better outlook for the world economy and recovery in steel demand in certain segments**

  - Consistent growth in the automotive industry in the markets served by Gerdau and significant exports from Brazil

  - Higher steel consumption in Brazil reflects the better market, but the construction industry's recovery remains slow

- **Management's efforts continue to contribute to the positive performance**

  - Adjusted net income of R$145 million (**+53%** vs. 3Q16)

  – Positive free cash flow generation (**R$500 million** in 3Q17)

  - Reduction in SG&A expenses **(-18%** vs. 3Q16)

  - Reduction in debt balance (**3.4x** Net Debt/EBITDA)

  - Divestments of **R$3.2 billion** in last 4 years

- **Continued progress in the Company's reinvention movement**

  - Further advances made in governance and new executive leader, as announced

  - Management efforts to increase business profitability and optimize assets

  - Modernizing the culture

  - Digital innovation

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4Q17 Earnings Release:

February 28th, 2018



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