CONOCOPHILLIPS
Form ARS
March 28, 2013

This document was generated as part of a paper submission.
Please reference the Document Control Number 13001179 for access to the original document.

(95,600

)

Balance as of December 31, 2014

40,152

109,930

364,281

124,211

20,251

298,409

435,568

1,581

1,394,383

Equity in earnings

14,432

(88,690

)

38,485

11,725

(1,933

)

(7,574

)

9,053

(24,502

)

Cumulative Translation Adjustment

11,265

27,021

173,079

2,611

68,733

134,749

503

417,961

Capital increase

40,524

40,524

Impairment of assets

(361,786

)

(361,786

)

Control acquisition

(20,929

)

(20,929

)

Dividends/Interest on equity

(5,116

)

(46,341

)

(1,312

)

(52,769

)

Balance as of December 31, 2015

60,733

88,785

575,845

89,595

359,568

216,272

2,084

1,392,882

Composition of Goodwill by associate and joint ventures

	2015	2014	2013
Dona Francisca Energética S.A.	17,071	17,071	17,071
Grupo Multisteel Business Holding Corp.			30,396
Corsa Controladora S.A. de C.V.	234,222	187,981	186,419
Corporación Centroamericana del Acero, S.A.		261,362	230,504
	251,293	466,414	464,390

Table of Contents

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

a) Summary of changes in property, plant and equipment:

Gross cost of the property, plant, and equipment	Land and buildings	Machines, equipment, and installations	Data electronic equipment	Property, plant and equipment under construction	Other	Total
Balances as of January 1, 2013	7,401,094	22,995,301	718,353	4,294,205	1,026,181	36,435,134
Additions	88,225	113,164	8,091	2,311,817	76,968	2,598,265
Capitalized interest				114,032		114,032
Transfers	604,179	2,502,103	(62,614)	(3,148,483)	104,815	
Disposals	(47,292)	(285,374)	(8,203)	(14,181)	(28,435)	(383,485)
Business Combination	4,613	10,739	137		3,678	19,167
Foreign exchange effect	429,292	1,399,969	40,903	180,226	50,334	2,100,724
Balances as of December 31, 2013	8,480,111	26,735,902	696,667	3,737,616	1,233,541	40,883,837
Additions	41,207	7,994	10,900	2,126,112	80,489	2,266,702
Capitalized interest				132,269		132,269
Transfers	397,150	1,463,771	35,302	(1,907,562)	11,339	
Disposals	(57,777)	(240,760)	(13,930)	(139,306)	(36,766)	(488,539)
Impairment		(339,374)				(339,374)
Foreign exchange effect	223,074	806,541	26,516	116,498	8,010	1,180,639
Balances as of December 31, 2014	9,083,765	28,434,074	755,455	4,065,627	1,296,613	43,635,534
Additions	2,150	238,060	8,194	2,000,515	75,799	2,324,718
Capitalized interest				213,476		213,476
Business Combination	30,693	10,767	503	1,784	10,853	54,600
Transfers	462,812	1,475,130	40,512	(1,999,840)	21,386	
Disposals	(69,777)	(142,936)	(20,166)	(103,959)	(29,769)	(366,607)
Impairment	(60,952)	(1,029,889)		(543,726)		(1,634,567)
Foreign exchange effect	1,394,111	4,102,898	154,768	434,999	95,603	6,182,379
Balances as of December 31, 2015	10,842,802	33,088,104	939,266	4,068,876	1,470,485	50,409,533

Accumulated depreciation	Land and buildings	Machines, equipment, and installations	Data electronic equipment	Property, plant and equipment under construction	Other	Total
Balances as of January 1, 2013	(2,851,043)	(13,031,650)	(563,237)		(299,023)	(16,744,953)
Depreciation, amortization and depletion	(275,102)	(1,510,291)	(42,003)		(54,134)	(1,881,530)
Transfers	(3,545)	4,553	34,449		(35,457)	
Disposals	19,353	113,004	6,727		37,854	176,938
Foreign exchange effect	(157,114)	(776,200)	(46,924)		(34,980)	(1,015,218)
Balances as of December 31, 2013	(3,267,451)	(15,200,584)	(610,988)		(385,740)	(19,464,763)
Depreciation, amortization and depletion	(305,995)	(1,591,703)	(42,231)		(76,205)	(2,016,134)
Transfers	(1,115)	911	171		33	
Disposals	27,433	441,774	12,217		72,892	554,316
Foreign exchange effect	(71,069)	(475,730)	(23,952)		(6,413)	(577,164)
Balances as of December 31, 2014	(3,618,197)	(16,825,332)	(664,783)		(395,433)	(21,503,745)
Depreciation, amortization and depletion	(323,824)	(1,842,158)	(48,195)		(96,391)	(2,310,568)
Transfers	8,815	(9,071)	360		(104)	
Disposals	26,846	175,405	15,512		28,844	246,607
Foreign exchange effect	(481,359)	(2,913,862)	(130,514)		(60,362)	(3,586,097)
Balances as of December 31, 2015	(4,387,719)	(21,415,018)	(827,620)		(523,446)	(27,153,803)

Net property, plant and equipment						
Balances as of December 31, 2013	5,212,660	11,535,318	85,679	3,737,616	847,801	21,419,074
Balances as of December 31, 2014	5,465,568	11,608,742	90,672	4,065,627	901,180	22,131,789
Balances as of December 31, 2015	6,455,083	11,673,086	111,646	4,068,876	947,039	23,255,730

The average rate of capitalized interest in 2015 was 6.4% (6.1% in 2014 and 6.0% in 2013).

The following useful lives are used to calculate depreciation, amortization, and depletion:

	Useful lives of property, plant and equipment
Buildings	20 to 33 years
Machines, equipment, and installations	10 to 20 years
Furniture and fixture	5 to 10 years
Vehicles	3 to 5 years
Data electronic equipment	2.5 to 6 years

b) Guarantees property, plant and equipment have been pledged as collateral for loans and financing in the amount of R$ 823,650 as of December 31, 2015 (R$ 862,244 and R$ 615,997 as of December 31, 2014 and 2013, respectively).

Table of Contents

c) Impairment of property, plant and equipment At December 31, 2015, the carrying amount of items of property, plant and equipment for which an impairment loss has been recognized up to current year is R$ 90,920 for land, buildings and construction (R$ 41,944 as of December 31, 2014), R$ 1,609,410 for machines, equipment and installations (R$ 205,101 as of December 31, 2014), R$ 543,726 for Property, plant and equipment under construction (R$ 0 as of December 31, 2014). The amounts for the years presented on the table above are included in the Impairment row.

NOTE 11 GOODWILL

The changes in goodwill are as follows:

	Goodwill	Accumulated impairment losses	Goodwill after Impairment losses
Balance as of January 1, 2013	10,265,246	(231,850)	10,033,396
(+/-) Foreign exchange effect	1,324,790	(32,435)	1,292,355
(+) Additions	27,294		27,294
Balance as of December 31, 2013	11,617,330	(264,285)	11,353,045
(+/-) Foreign exchange effect	1,217,668	(14,309)	1,203,359
Balance as of December 31, 2014	12,834,998	(278,594)	12,556,404
(+/-) Foreign exchange effect	5,264,188	(167,679)	5,096,509
(-) Impairment		(2,999,887)	(2,999,887)
Balance as of December 31, 2015	18,099,186	(3,446,160)	14,653,026

The amounts of goodwill by segment are as follows:

	2015	2014	2013
Brazil	519,327	553,607	533,186
Special Steel	2,938,025	2,852,631	2,580,989
South America		408,960	519,155
North America	11,195,674	8,741,206	7,719,715
	14,653,026	12,556,404	11,353,045

NOTE 12 INTANGIBLE ASSETS

Intangible assets consist mainly of relationships recognized upon business combinations and software development:

	Supplier relationships	Software development	Customer contracts and relationships	Others	Total

Balance as of January 1, 2013	78,659	415,712	816,399	53,646	1,364,416
Foreign exhange effect		29,863	109,388	4,208	143,459
Acquisition		157,585		810	158,395
Disposal		(510)		(19,864)	(20,374)
Amortization	(11,687)	(3,212)	(129,460)	(3,618)	(147,977)
Balance as of December 31, 2013	66,972	599,438	796,327	35,182	1,497,919
Foreign exhange effect		29,854	91,031	1,016	121,901
Acquisition		123,755	3,302	14,899	141,956
Disposal				(3,416)	(3,416)
Amortization	(10,318)	(63,460)	(127,745)	(9,739)	(211,262)
Balance as of December 31, 2014	56,654	689,587	762,915	37,942	1,547,098
Foreign exhange effect		123,167	327,424	14,375	464,966
Acquisition		118,933		7,495	126,428
Disposal		(1,182)		(4,208)	(5,390)
Amortization	(9,083)	(120,497)	(164,968)	(2,793)	(297,341)
Balance as of December 31, 2015	47,571	810,008	925,371	52,811	1,835,761
Estimated useful lives	5 to 20 years	7 years	5 to 20 years	5 years	

Table of Contents

The composition of other intangible assets by segment is as follows:

	2015	2014	2013
Brazil	459,383	460,954	405,259
Special Steel	357,435	248,877	244,266
South America	13,507	15,748	19,206
North America	1,005,436	821,519	829,188
	1,835,761	1,547,098	1,497,919

NOTE 13 LOANS AND FINANCING

Loans and financing are as follows:

	Annual charges (*)	2015	2014
Working capital	10.47%	3,814,454	4,062,436
Financing of property, plant and equipment and others	6.38%	3,996,409	2,064,487
Ten/Thirty Year Bonds	6.21%	18,403,132	13,059,526
Total Loans and Financing		26,213,995	19,186,449
Current		2,387,237	2,037,869
Non-current		23,826,758	17,148,580
Principal amount of loans and Financing		25,760,836	18,843,000
Interest accrued of loans and Financing		453,159	343,449
Total Loans and Financing		26,213,995	19,186,449

Loans and financing denominated in Brazilian reais are indexed to the TJLP (long-term interest rate, CDI (Interbank Deposit Certificate), or by the IGP-M (general market price index) and IPCA (Amplified Consumer Price).

Summary of loans and financing by currency:

	2015	2014
Brazilian Real (BRL)	3,224,563	3,481,360
U.S. Dollar (USD)	21,637,029	14,708,621
Other currencies	1,352,403	996,468
	26,213,995	19,186,449

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

	2015	2014
2016		893,003
2017	4,636,764	3,151,662
2018	1,530,746	754,884
2019	968,992	671,039
2020	3,813,070	3,498,457
2021 on	12,877,186	8,179,535
	23,826,758	17,148,580

a) Main funding in 2015

In March 2015, the subsidiary Siderperu renewed a loan in the amount of US$ 100 million for a three years period and guarantee of Gerdau S.A. with Bank of Tokyo. As of December 31, 2015, the outstanding balance of this loan was US$ 100 million (R$ 390.5 million as of December 31, 2015).

In August 2015, the subsidiary Diaco obtained a loan in the amount of US$ 40 million with Citibank with a three years maturity, with guarantee of Gerdau S.A.. As of December 31, 2015, the outstanding balance of this loan was US$ 36.7 million (R$ 143 million as of December 31, 2015).

In October 2015, the subsidiary Gerdau Açominas S.A. obtained a loan in the amount of R$ 656 million through line 4131 with Citibank for a period of five years.

Table of Contents

In November 2015, the Company obtained a loan in the amount of R$ 50 million through a compulsory NCE from Santander, with maturity in five years.

In December 2015, the Company obtained a loan in the amount of R$ 50 million through EXIM PSI Program from BNDES, with matiruty in three years.

b) Covenants

In September 2015, the Company completed the renegotiation process of financial covenants in all contracts of Gerdau S.A. Starting from October, only operations with BNDES include the Company s contract established debt ratios, however with different features from those in contracts with commercial banks. In the event of a possible breach of the indicator at the annual measurement, the Company enters into a curing period and a subsequent warranties renegotiation, not characterizing the possibility of a default event.

c) Guarantees

All loans contracted under the FINAME/BNDES program, totaling R$ 121.2 million on December 31, 2015, are guaranteed by the assets being financed.

d) Credit Lines

In June 2009, the subsidiaries of the Company, Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and the former subsidiary Aços Villares S.A., obtained a pre-approved credit line with BNDES in the total amount of R$ 1.5 billion to be used for the revamp and modernization of several areas, an increase in the production capacity of certain product lines, investment in logistics and energy generation, and also environmental and sustainability projects. The funds are made available at the time each subsidiary starts its specific investment and presents to BNDES the evidence of the investment made. The interest rate for this credit line is determined at the time of each disbursement, and is composed by indexes linked to of TJLP + 2.16% p.a. As of December 31, 2015, the outstanding balance of this credit facility was R$ 881.8 million.

As from October 2015, the Company made purchases from domestic suppliers of inputs, which discounted the bills with financial institutions through credit line, which is basically the sale of receivables without recourse, with interest rates ranging around 1.15% p.m.. On December 31, 2015 , the present valur of these liabilities related to these purchases amounted to R$ 40,028 and these values are presented in the Short-term debt account in Current liabilities . The average maturity of these bills ranges from 165-180 days.

In November, 2015, the Company concluded the renewal and increase of the volume of the Senior Unsecured Global Working Capital Credit Agreement, which is a US$ 1 billion revolving credit line with the purpose of providing liquidity to its subsidiaries. The line is divided into two tranches, US$ 250 million destined for Gerdau s North American subsidiaries borrowing needs and US$ 750 million for Gerdau s Latin American and Spanish subsidiaries borrowing needs. The following companies guarantee this agreement: Gerdau S.A., Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A. As of December 31, 2015, the outstanding balance of this credit line was US$ 365 million (R$ 1.4 billion as of December 31, 2015).

Table of Contents

NOTE 14 DEBENTURES

Issuance	General Meeting	Quantity as of December 31, 2015 Issued	Held in treasury	Maturity	2015	2014
3rd- A and B	May 27,1982	144,000	131,436	06/01/2021	64,184	81,834
7th	July 14, 1982	68,400	61,764	07/01/2022	43,928	51,787
8th	November 11, 1982	179,964	162,608	05/02/2013	75,061	107,144
9th	June 10, 1983	125,640	123,542	09/01/2024	13,888	14,154
11th - A and B	June 29, 1990	150,000	142,064	06/01/2020	49,801	55,863
14th	August 26, 2014	20,000	11,916	08/30/2024		24,254
Total Consolidated					246,862	335,036
Non-current					246,862	335,036

The amortization schedules of long term are as follows:

	2015	2014
2020	49,801	55,863
2021 on	197,061	179,173
	246,862	235,036

Debentures are denominated in Brazilian reais, they are not convertible into shares and have variable interest at a percentage of the CDI (Interbank Deposit Rate). The nominal annual interest rate was 13.24% and 10.81% as of December 31, 2015 and December 31, 2014, respectively.

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

Table of Contents

NOTE 15 - FINANCIAL INSTRUMENTS

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

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

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

	2015		**2014**	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Cash and cash equivalents	5,648,080	5,648,080	3,049,971	3,049,971
Short-term investments	1,270,760	1,270,760	2,798,834	2,798,834
Trade accounts receivable	4,587,426	4,587,426	4,438,676	4,438,676
Related parties	54,402	54,402	80,920	80,920
Unrealized gains on derivatives	43,601	43,601	41,751	41,751
Judicial deposits	1,703,367	1,703,367	1,430,865	1,430,865
Other current assets	454,140	454,140	331,352	331,352
Other non-current assets	490,583	490,583	375,732	375,732
Liabilities				
Trade accounts payable	3,629,788	3,629,788	3,236,356	3,236,356
Loans and Financing	26,213,995	23,115,570	19,186,449	19,533,676
Debentures	246,862	246,862	335,036	335,036
Related parties	896	896		
FIDC Obligation	853,252	853,252		
Other current liabilities	829,182	829,182	858,901	858,901
Other non-current liabilities	690,766	690,766	635,457	635,457
Unrealized losses on derivatives			8,999	8,999

The fair values of Loans and Financing are based on market premises, which may take into consideration discounted cash flows using equivalent market rates and credit rating. All other financial instruments, which are recognized in the Consolidated Financial Statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if they were settled in advance. The fair value hierarchy of the financial instruments above are presented in Note 15.g.

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

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

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

Table of Contents

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

Credit risk: this risk arises from the possibility of the subsidiaries not receiving amounts arising from sales to customers or investments made with financial institutions. In order to minimize this risk, the subsidiaries adopt the procedure of analyzing in details of the financial position of their customers, establishing a credit limit and constantly monitoring their balances. Regarding cash investments, the Company invests solely in financial institutions with low credit risk, as assessed by rating agencies. In addition, each financial institution has a maximum limit for investment, determined by the Company s Credit Committee. If an independent assessment is not availbale, the Company s credit area provides a credit rating assessment, taking into consideration its financial position, past experience and other factors.

Capital management risk: this risk comes from the Company s choice in adopting a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debts and its own capital (Equity) based on internal policies and benchmarks. The KPIs (Key Performance Indicators) related to the objective Capital Structure Management are: WACC (Weighted Average Cost of Capital), Net Debt/ EBITDA, Net Financial Expenses Coverage Ratio, and Indebtedness/Equity Ratio. The Net Debt is composed of the outstanding principal of the debt, less cash, cash equivalents and short-term investments (notes 4, 13 and 14). The total capitalization is formed by Total Debt (composed by the outstanding principal of the debt) and equity (note 22). The Company may change its capital structure, as economic and financial conditions to optimize its financial leverage and its debt management. At the same time, the Company seeks to improve its ROCE (Return on Capital Employed) by implementing a working capital management and an efficient program of capital expenditures. In the long-term, the Company seeks to remain between the parameters below, admitting specific short-term variations:

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

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

Liquidity risk: the Company s management policy of indebtedness and cash on hand is based on using the committed lines and the currently available credit lines with or without a guarantee in export receivables for maintaining adequate levels of short, medium, and long-term liquidity. The maturity of long-term loans, financing, and debentures are presented in Notes 13 and 14, respectively.

			2015		
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Trade accounts payable	3,629,788	3,629,788			
Loans and financings	25,720,808	1,894,050	6,167,510	4,782,062	12,877,186
Debentures	9,949			1,822	8,127
Related parties	896				896
	29,361,441	**5,523,838**	**6,167,510**	**4,783,884**	**12,886,209**

			2014		
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Trade accounts payable	3,236,356	3,236,356			
Loans and financings	18,843,000	1,694,420	4,044,665	1,425,923	11,677,992
Debentures	13,502				13,502
	22,092,858	**4,930,776**	**4,044,665**	**1,425,923**	**11,691,494**

Table of Contents

Sensitivity analysis:

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

Impacts on Statements of Income

Assumptions	Percentage of change	2015	2014
Foreign currency sensitivity analysis	5%	217,492	185,571
Interest rate sensitivity analysis	10 bps	99,147	91,736
Sensitivity analysis of changes in prices of products sold	1%	435,812	425,463
Sensitivity analysis of changes in raw material and commodity prices	1%	271,264	249,120
Sensitivity analysis of interest rate and foreign currency swaps	10 bps/5%	12,202	9,110
Sensitivity analysis of NDF s (Non Deliverable Forwards)	5%	18,288	7,741

Foreign currency sensitivity analysis: As of December 31, 2015, the Company is mainly exposed to variations between the Brazilian *real* and US Dollar. The sensitivity analysis made by the Company considers the effects of an increase or a reduction of 5% between the Brazilian *real* and the US Dollar on debts that do not have hedge operations. The impact calculated considering such variation in the foreign exchange rate totals R$ 217,492 and R$ 114,735 after the effects of changes in the net investment hedge described in note 15.g, as of December 31, 2015 (R$ 185,571 and R$ 107,659 of December 31, 2014, respectively) and represents income if appreciation of the Brazilian *real* against the US Dollar occurs or an expense in the case of a depreciation of the Brazilian *real* against the US Dollar, however due to the investment hedge these effects would be mitigated when considered the income tax and exchange rate variance accounts.

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

Interest rate sensitivity analysis: The interest rate sensitivity analysis made by the Company considers the effects of an increase or reduction of 10 basis point (bps) on the average interest rate applicable to the floating part of its debt. The impact calculated, considering this variation in the interest rate totals R$ 99,147 as of December 31, 2015 (R$ 91,736 as of December 31, 2014) and would impact the Financial expenses account in the Consolidated Statements of Income. The specific interest rates to which the Company is exposed are related to the loans, financing, and debentures presented in Notes 13 and 14, and are mainly comprised by Libor and CDI Interbank Deposit Certificate.

Sensitivity analysis of changes in sales price of products and price of raw materials and other inputs used in production: the Company is exposed to changes in the price of its products. This exposure is associated with the fluctuation of the sale price of the Company s products and the price of raw materials and other inputs used in the production process, mainly for operating in a commodity market. The sensitivity analysis made by the Company considers the effects of an increase or of a reduction of 1% on both prices. The impact measured considering this variation in the price of products sold, considering the net income and costs of the year ended on December 31, 2015, totals R$ 435,812 (R$ 425,463 as of December 31, 2014) and the variation in the price of raw materials and other inputs totals R$ 271,264 as of December 31, 2015 (R$ 249,120 as of December 31, 2014). The impact in the price of products sold and raw materials would be recorded in the accounts Net Sales and Cost of Sales, respectively, in the Consolidated Statements of Income. The Company does not expect to be more vulnerable to a change in one or more specific product or raw material.

Sensitivity analysis of interest rate and cross currency swaps: the Company has exposure to interest rate and cross currency swaps for some of its loans and financing. The sensitivity analysis calculated by the Company considers the effects of either an increase or a decrease of 10 bps in the interest curve (Libor) combined with an increase or decrease of 5% on the US Dollar against the local currency, and their impacts in the swaps mark to market. These variations represent an income or a loss of R$ 12,202 (R$ 9,110 as of December 31, 2014). On December 31, 2015, these effects would be recognized in the statement of comprehensive income in the amount of R$ 12,202 (R$ 9,110 in the statement of comprehensive income on December 31, 2014). The interest rate swaps to which the Company is exposed to are presented in note 15.e.

Sensitivity analysis of forward contracts in US Dollar: the Company has exposure in forward contracts in US Dollar to some of its assets and liabilities. The sensitivity analysis calculated by the Company considers an effect of a 5% US Dollar depreciation or appreciation against the Colombian Peso, the Argentinean Peso and the Indian Rupee, and corresponds to the effects on the mark to market of such transactions. An increase of 5% on the US Dollar against the Colombian Peso, the Argentinean Peso and the Indian Rupee represents a combined gain of R$ 18,288 as of December 31, 2015 (R$ 7,741 as of December, 31 2014) and a decrease of 5% on the US Dollar against the Colombian Peso, the Argentinean Peso and the Indian Rupee, represents a combined loss in the same amount presented above. These forward contracts were hired to hedge liabilities and these mark to market variations would be recognized in the Consolidated Statement of Income. The forward contracts in US Dollar, in which the Company is exposed, are presented in note 15.e.

d) Financial Instruments per Category

Summary of the financial instruments per category:

Table of Contents

2015 Assets	Loans and receivables	Assets at fair value with gains and losses recognized in income	Assets at fair value with gains and losses recognized in shareholder s equity	Total
Cash and cash equivalents	5,648,080			5,648,080
Short-term investments		1,270,760		1,270,760
Unrealized gains on financial instruments			43,601	43,601
Trade accounts receivable	4,587,426			4,587,426
Related parties	54,402			54,402
Judicial deposits	1,703,367			1,703,367
Other current assets	454,140			454,140
Other non-current assets	490,583			490,583
Total	12,937,998	1,270,760	43,601	14,252,359
Financial income	823,613	358,515		1,182,128

Liabilities	Liabilities at market value with gains and losses recognized in income	Other financial liabilities at amortized cost	Total
Trade accounts payable		3,629,788	3,629,788
Loans and financings		26,213,995	26,213,995
Debentures		246,862	246,862
Related parties		896	896
FIDC Obligation		853,252	853,252
Other current liabilities		829,182	829,182
Other non-current liabilities		690,766	690,766
Total		32,464,741	32,464,741
Financial income	(688)	(4,060,336)	(4,061,024)

2014 Assets	Loans and receivables	Assets at fair value with gains and losses recognized in income	Assets at fair value with gains and losses recognized in shareholder s equity	Total
Cash and cash equivalents	3,049,971			3,049,971
Short-term investments		2,798,834		2,798,834
Unrealized gains on financial instruments			41,751	41,751
Trade accounts receivable	4,438,676			4,438,676
Related parties	80,920			80,920
Judicial deposits	1,430,865			1,430,865
Other current assets	331,352			331,352
Other non-current assets	375,732			375,732
Total	9,707,516	2,798,834	41,751	12,548,101
Financial income	343,697	223,741		567,438

Liabilities	Liabilities at market value with gains and losses recognized in income	Other financial liabilities at amortized cost	Total
Trade accounts payable		3,236,356	3,236,356
Loans and financings		19,186,449	19,186,449
Debentures		335,036	335,036
Related parties			
Other current liabilities		858,901	858,901
Other non-current liabilities		635,457	635,457

Unrealized losses on financial instruments	8,999		8,999
Total	8,999	24,252,199	24,261,198
Financial income	(7,530)	(2,120,910)	(2,128,440)

As of December 31, 2015, the Company has derivative financial instruments such as interest rate swaps and forward contracts in US Dollar. Part of these instruments is classified as cash flow hedges and their effectiveness can be measured, having their unrealized losses and /or gains classified directly in Other Comprehensive Income. The other derivative financial instruments have their realized and unrealized losses and/or gains presented in the account Gains and losses on derivatives, net in the Consolidated Statement of Income.

Table of Contents

e) Operations with derivative financial instruments

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

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

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

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

The derivative transactions may include: interest rate swaps, cross currency swaps and currency forward contracts.

Forward Contracts in US Dollar

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

Swap Contracts

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

The derivatives instruments can be summarized and categorized as follows:

			Notional value		Amount receivable		Amount payable	
Contracts	**Position**		**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Forward								
Maturity at 2015		long in US$		US$80.0 million		41,751		
Maturity at 2016		long in US$	US$108.0 million		37,981			
Cross currency swap								
	receivable under the swap	Libor 6M + 2.25%		US$25.0 million				
Maturity in 2017	payable under the swap	INR 11.02%	US$25.0 million		1,756			(2,349)
	receivable under the swap	Libor 6M +2%	US$40.0 million	US$40.0 million	3,864			(6,650)
Maturity in 2018	payable under the swap	INR 10.17%						
Total fair value of financial instruments					43,601	41,751		(8,999)

Table of Contents

Prospective and retrospective tests demonstrated the effectiveness of these instruments.

	2015	2014
Unrealized gains on financial instruments		
Current assets	37,981	41,751
Non-current assets	5,620	
	43,601	41,751
Unrealized losses on financial instruments		
Non-current liabilities		(8,999)
		(8,999)

	2015	2014
Net Income		
Gains on financial instruments	129,917	43,692
Losses on financial instruments	(42,832)	(7,201)
	87,085	36,491
Other comprehensive income		
Gains (Losses) on financial instruments	17,283	(5,989)
	17,283	(5,989)

f) Net investment hedge

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

The exchange variation generated on the operations of Ten/Thirty Years Bonds in the amount of US$ 2.7 billion (designated as hedges) is recognized in the Statement of Comprehensive Income, while the exchange rate on the portion of US$ 1.0 billion (not designated as hedges) is recognized in income. Additionally, the Company opted to designate as hedge of the net investment financing operations held by the subsidiary Gerdau Açominas SA, in the amount of US$ 0.2 billion, which were made in order to provide part of the funds to purchase these investments abroad.

The Company demonstrated high effectiveness of the hedge as from the debt hiring for acquisition of these companies abroad, whose effects were measured and recognized directly in the Statement of Comprehensive Income as an unrealized loss, net of taxes, in the amount R$ 3.613.178 for the year ended on December 31, 2015, respectively (loss of R$ 948.991 on December 31, 2014).

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

g) Measurement of fair value:

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

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

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

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

Table of Contents

As of December 31, 2015, the Company had some assets which the fair value measurement is required on a recurring basis. These assets include investments in private securities and derivative instruments.

Financial assets and liabilities of the Company, measured at fair value on a recurring basis and subject to disclosure requirements of IFRS 7 as of December 31, 2015, are as follows:

			Fair Value Measurements at Reporting Date Using			
			Quoted Prices Active Markets for Identical Assets (Level 1)		Quoted Prices in Non-Active Markets for Similar Assets (Level 2)	
	2015	2014	2015	2014	2015	2014
Current assets						
Cash and cash equivalents	5,648,080	3,049,971			5,648,080	3,049,971
Short-term investments - Held for Trading	1,270,760	2,798,834	476,154	978,840	794,606	1,819,994
Trade Accounts receivable	4,587,426	4,438,676			4,587,426	4,438,676
Unrealized gains on financial instruments	37,981	41,751			37,981	41,751
Other current assets	454,140	331,352			454,140	331,352
Non-current assets						
Related parties	54,402	80,920			54,402	80,920
Unrealized gains on financial instruments	5,620				5,620	
Other non-current assets	490,583	375,732			490,583	375,732
	12,548,992	11,117,236	476,154	978,840	12,072,838	10,138,396
Current liabilities						
Trade accounts payable	3,629,788	3,236,356			3,629,788	3,236,356
Short-term debt	2,387,237	2,037,869			2,387,237	2,037,869
Other current liabilities	829,182	858,901			829,182	858,901
Non-current liabilities						
Long-term debt	23,826,758	17,148,580			23,826,758	17,148,580
Debentures	246,862	335,036			246,862	335,036
Unrealized losses on financial instruments		8,999				8,999
FIDC Obligation	853,252				853,252	
Other non-current liabilities	690,766	635,457			690,766	635,457
	32,463,845	24,261,198			32,463,845	24,261,198

NOTE 16 TAXES PAYABLE

	2015	2014
Payroll charges	115,295	112,883
ICMS (state VAT)	50,229	73,651
COFINS (tax on revenue)	12,625	22,084

IPI (federal VAT)	5,265	21,728
IVA (value-added tax) and others	166,260	175,144
	349,674	405,490

NOTE 17 TAX, CIVIL AND LABOR CLAIMS AND CONTINGENT ASSETS

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

For claims whose expected loss is considered probable, the provisions have been recorded considering the judgment of the Management of the Company with the assistance of its legal advisors and the provisions are considered sufficient to cover expected probable losses. The balances of the provisions are as follows:

Table of Contents

I) Provisions

	2015	2014
a) Tax provisions		
ICMS (state VAT)	26,896	25,825
Corporate Income Tax and Social Contribution Tax	36,630	34,038
Emergency Capacity Charge and Extraordinary Tariff Adjustment	34,742	32,853
Financing of social integration program and Social security financing	1,423,554	1,177,200
Other tax provisions and Social security contributions	47,981	38,171
b) Labor provisions	287,613	228,475
c) Civil provisions	47,314	39,793
	1,904,730	1,576,355

a) Tax Provisions

The tax provisions relate mainly to the discussions concerning the compensation of PIS (*Contribuição ao Programa de Integração Social - PIS*)credits, PIS and COFINS (*Contribuição para o Financiamento da Seguridade Social - COFINS*) on other revenues and exclusion of ICMS (*Imposto sobre a circulação de Mercadorias e Serviços - ICMS)* from the PIS and COFINS tax base. With respect to proceedings dealing with the exclusion of ICMS from the calculation basis of PIS and COFINS, the Company and its subsidiaries are judicially depositing the amounts involved.

b) Labor Provisions

The Company and its subsidiaries are party to labor claims. None of these claims involve individually significant amounts and corresponds mainly to overtime pay, health hazard premium, and hazardous duty premium, among others.

c) Civil Provisions

The Company and its subsidiaries are also a party to civil lawsuits arising in the normal course of its business, which totaled as of December 31, 2015 the amount shown as provision liabilities.

The changes in the tax, labor and civil provisions are shown below:

	2015	2014
Balance at the beginning of the year	1,576,355	1,294,598

(+) Additions	307,533	213,285
(+) Monetary variation	144,900	128,305
(-) Reversal of accrued amounts	(129,119)	(59,714)
(+) Foreign exchange effect on provisions in foreign currency	5,061	(119)
Balance at the end of the year	1,904,730	1,576,355

II) Contingent liabilities for which provisions were not recorded

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

a) Tax contingencies

a.1) The Company and its subsidiary Gerdau Aços Longos S.A., Gerdau Açominas S.A. and Gerdau Aços Especiais S.A., have other lawsuits related to the ICMS (state VAT) which are mostly related to credit rights and rate differences, whose demands totaled R$ 1,128,071.

a.2) The Company and its subsidiaries Gerdau Açominas S.A., Gerdau Aços Longos S.A. and Gerdau Aços Especiais S.A., are parties to the lawsuits relating to other taxes. The total amount of these lawsuits is R$ 441,318.

a.3) Subsidiaries Gerdau Internacional Empreendimentos Ltda. and Gerdau Aços Especiais S.A., are parties to administrative proceedings relating to IRPJ Corporate Income Tax and CSLL Social Contribution Tax. Said proceedings relate to profits generated abroad and currently amount to R$ 1,446,835, of which (i) R$ 1,311,984 correspond to two proceedings involving Gerdau Internacional Empreendimentos Ltda., whose voluntary appeals were partially granted in CARF s lower court and are subject to special appeals currently pending in CARF s higher court; and (ii) R$ 134,851 correspond to a

Table of Contents

proceeding involving Gerdau Aços Especiais S.A., whose voluntary appeal is still pending in CARF s lower court. The amounts which are not subject to special appeal pending judgment of Gerdau Internacional Empreendimentos Ltda were referred for collection by the Federal Revenue Service Bureau and will be subject to judicial litigation by the Company.

a.4) Subsidiaries Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., are parties to administrative proceedings relating to the disallowance of the deductibility of goodwill generated in accordance with Article 7 and 8 of Law 9,532/97 as a result of a corporate restructuring carried out in 2004/2005 from the tax base of the Corporate Income tax - IRPJ and Social Contribution on Net Income - CSLL. The total updated amount of the proceedings is R$ 3,666,096, of which (i) R$ 1,263,009 correspond to three proceedings involving subsidiaries Gerdau Acos Longos S.A., Gerdau Aços Especiais S.A. and Gerdau Açominas S.A., whose voluntary appeals were granted in 2012 and are subject to appeals filed by the Special Prosecutor of the National Treasury, currently pending in CARF s higher court; (ii) R$ 1,881,973 correspond to a proceeding involving Gerdau Acos Longos S.A., whose voluntary appeal was dismissed by CARF s lower court in 2014 and is subject to a special appeal currently pending in CARF s higher court; (iii) R$ 420,868 correspond to two proceedings involving Gerdau Aços Longos S.A., whose voluntary appeal is currently pending in CARF s lower court; (iv) R$ 100,246 correspond to a proceeding involving Gerdau Aços Especiais S.A., the decision of which is currently pending in the Federal Revenue Service Bureau.

Decisions handed down to date in the proceedings relating to profits generated abroad and the deductibility of goodwill, as above mentioned, are being investigated in the context of Operação Zelotes , as mentioned in Note 17 and Note 31.

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

b) Civil contingencies

b.1) A lawsuit arising from the request by two civil construction unions in the state of São Paulo alleging that Gerdau S.A. and other long steel producers in Brazil share customers, thus, violating the antitrust legislation. After investigations carried out by the Economic Law Department (SDE), the final opinion was that a cartel exists. The lawsuit was therefore forwarded to the Administrative Council for Economic Defense (CADE) for judgment.

In May 2004, Gerdau S.A. filed a new lawsuit with the purpose of annulling the administrative proceeding grounded on formal irregularities found during the discovery.

CADE, irrespective of the request for submission of evidence that a cartel does not exist made by Gerdau S.A., judged the merits of the administrative proceedings on September 23, 2005 and, by a majority of votes, fined the Company, for formation of a cartel and other long steel producers an amount equivalent to 7% of gross revenues in the year before the Administrative Proceeding was commenced, excluding taxes.

Despite the CADE decision, the legal action filed by Gerdau S.A. follows its normal course and, currently, awaits judgment in the lower court. In the event the irregularities in the process alleged by Gerdau are recognized by the court, the CADE decision may be annulled.

Furthermore, in order to reverse the terms of the decision by CADE, Gerdau appealed to the Judiciary on July 26, 2006 by bringing a new ordinary suit that not only ratifies the request of the first suit begun by Gerdau, but also indicates irregularities found during the course of the administrative proceeding. On August 30, 2006, Gerdau was successful in obtaining legal protection in order to suspend the effects of CADE s decision (R$ 245,070 fine equal to 7% of the gross revenue in 1999, excluding taxes) until final court decision be reached, being offered a guarantee through a bank guarantee letter. On August 1, 2013, the Judicial Accounting updated the amount of the fine to R$ 417,820 and judgment has been rendered in that case and dismissed the action. The case is in the appeal stage .

It should be noted that just prior to the CADE decision, the Public Prosecution Office of the state of Minas Gerais filed a Public Civil Action, based on the above-mentioned SDE decision, and, without mentioning any new elements, alleged that the Company was involved in activities which violated the antitrust legislation. Gerdau S.A. contested this allegation on July 22, 2005.

The Company denies having been engaged in any type of anti-competitive conduct and believes based on information available, including the opinion of its legal counsel, that the administrative proceeding presents irregularities, some of which are impossible to be remediated. With respect to the merit, Gerdau is certain that it did not practice the alleged conduct and, supported by the opinion of renowned experts, believes that it is more likely than not that the decision will be reverted.

Table of Contents

b.2) The Company and its subsidiaries are parties to other demands of a civil nature that collectively have a discussion amount of approximately R$ 170,933. For these demands was not performed accounting accrual, since they were considered as possible losses, based on the opinion of its legal counsel.

Management considers that the risk of losses from other contingencies affecting the results or the consolidated financial position of the Company is not more likely than not.

III) Judicial deposits

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

	2015	2014
Tax	1,521,206	1,286,651
Labor	82,005	66,608
Civil	100,156	77,606
	1,703,367	1,430,865

IV) Contingent Asset - Eletrobrás Compulsory Loan Centrais Elétricas Brasileiras S.A. (Eletrobrás)

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

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

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

Table of Contents

NOTE 18 - RELATED-PARTY TRANSACTIONS

a) Intercompany loans

	2015	2014
Assets		
Associate companies		
Armacero Ind. Com. Ltda.		9,198
Aceros Corsa, S.A. de C.V.		7,729
Jointly-controlled entities		
Gerdau Corsa SAPI de C.V.	43	13,634
Others		
Fundação Gerdau	54,327	50,342
Others	32	17
	54,402	80,920
Liabilities		
Parent company		
Metalúrgica Gerdau S.A.	(896)	
	(896)	

	2015	2014	2013
Net financial income	2,712	2,743	1,573

b) Operations with related parties

During the years ended December 31, 2015 and 2014, the Company, through its subsidiaries, entered into commercial operations with some of its associates and joint ventures including sales of R$ 393,450 as of December 31, 2015 (R$ 255,601 as of December 31, 2014) and purchases in the amount of R$ 172,321 as of December 31, 2015 (R$ 146,590 as of December 31, 2014). The net amount totals R$ 221,129 as of December 31, 2015 (R$ 109,011 as of December 31, 2014).

During the years ended December 31, 2015 and 2014 , the Company and its subsidiaries made transactions with controlling shareholders , directly or indirectly , mainly of guarantees provided by the controlling in guarantees of debentures, on which the Company pays a fee of 0.95 % p.a. on the amount guaranteed . The effect of these transactions was an expense of R$ 3,204 (R$ 4,511 as of December 31, 2014). Additionally , the Company recorded revenues of R$ 929 (R$ 888 as of December 31, 2014), derived from rental agreement.

Table of Contents

c) Guarantees granted

Related Party	Relationship	Object	Original Amount	Maturity	2015	2014
Empresa Siderúrgica Del Peru S.A.A	Subsidiary	Financing Agreements	333,616	Apr/16 - Mar/18	419,766	405,071
GTL Trade Finance Inc.	Subsidiary	*10-year Bond*	1,744,000	Oct/17	3,379,741	2,312,371
GTL Trade Finance Inc.	Subsidiary	*30-year Bond*	1,118,000	Apr/44	1,952,400	1,328,100
Diaco S.A.	Subsidiary	Financing Agreements	644,555	Oct/16 - Aug/18	626,694	471,751
Gerdau Holding Inc.	Subsidiary	*10-year Bond*	2,188,125	Jan/20	2,364,520	1,669,695
Gerdau Trade Inc.	Subsidiary	10-year Bond	2,117,750	Jan/21	4,441,222	3,151,581
Gerdau Corsa S.A.P.I. de C.V.	Joint-venture	*Financing Agreements*	2,517,098	Feb/16 - Mar/19	2,880,430	1,244,316
GTL Trade Finance Inc., Gerdau Holdings Inc.	Subsidiary	10-year Bond	2,606,346	Apr/24	4,289,681	3,096,144
Sipar Aceros S.A.	Subsidiary	Financing Agreements	409,778	Jun/17-Dec/20	557,683	15,532
Coquecol S.A.C.I.	Subsidiary	Financing Agreements	101,049	Nov/16 - Apr/19	101,525	69,061
Gerdau Trade Inc.	Subsidiary	10-year Bond	1,501,275	Apr/23	2,341,060	1,735,827
Gerdau Steel India Ltd.	Subsidiary	Financing Agreements	348,595	Jan/16 - Feb/19	457,371	270,980
Comercial Gerdau Bolivia	Subsidiary	Financing Agreements	15,075	Nov/16	15,619	10,625
Gerdau Açominas S.A.	Subsidiary	Financing Agreements	2,960,203	Jan/20 - Feb/21	2,833,557	2,029,388
Gerdau Ameristeel US. Inc.	Subsidiary	Bond 25 yers	103,596	Oct/37	199,145	135,466
Gerdau Aços Longos S.A.	Subsidiary	Financing Agreements	426,098	Oct/24 - Dec/30	353,023	393,544
Siderurgica Zuliana, C.A.	Subsidiary	Financing Agreements	12,132	Jun/16	117,144	39,843
Sidertul, S.A. de C.V.	Subsidiary	Financing Agreements	212,496	Jan/16	82,832	45,118
Gerdau Aços Especiais S.A.	Subsidiary	Financing Agreements	70,000	Feb/20	70,000	70,000
Gerdau Açominas S.A., Gerdau Aços Longos S.A., Gerdau Aços Especiais S.A.	Subsidiary	Financing Agreements	900,000	Jul/16	7,167	27,050
Gerdau Steel India Ltd.	Subsidiary	Financing Agreements	88,797	Undetermined	89,015	
Gerdau Aços Longos S.A.	Subsidiary	Financing Agreements	50,917	May/16 - Dec/16	55,433	
Dona Francisca Energética S.A.	Associate	Financing Agreements	152,020	Dec/14		2,628
Gerdau Aços Especiais S.A.	Subsidiary	Electricity Purchase/Sale Agreement	1,664	Sep/16		8,354
Gerdau Metaldom Corp.	Joint-venture	Financing Agreements	125,304	Jun/15 - Dec/17		126,083
Gerdau Metaldom Corp.	Joint-venture	Financing Agreements	112,852	Mar/15		55,399
Steelchem Trading Corporation	Associate	Financing Agreements	80,964	Mar/15 - Jun/15		106,248

Aceros Corsa S.A. de C.V.	Associate	Financing Agreements	44,050	Jun/15	46,459

d) Debentures

Debentures are held by direct or indirect shareholders in the amount of R$ 73,485 as of December 31, 2015 (R$ 110,840 as of December 31, 2014), which corresponds to 13,233 debentures (18,304 as of December 31, 2014).

Table of Contents

e) Price and interest

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

f) Key Management compensation

The cost of the key management salaries, variable compensation and benefits was R$ 49,823 during 2015 (R$ 46,580 in 2014). In 2015, contributions to management s defined contribution pension plans totaled R$ 1,408 (R$ 1,314 in 2014).

Stock options granted to management are as follows:

	2015	
	Number of shares	**Weighted exercise price R$**
Balance as of January 1, 2014	1,599,023	19.44
Options Exercised	(20,143)	17.34
Options Forfeited	(14,539)	19.47
Balance as of December 31, 2014	1,564,341	19.53
Options Forfeited	(1,130,091)	19.56
Others	112,420	
Balance as of December 31, 2015	546,670	18.36

At the end of the year, the Restricted Shares resulting from the conversion process within the key management were:

	2015	**2014**
Available at beginning of the year	3,376,191	2,251,873
Granted	1,827,811	1,190,854
Exercised	(2,934,567)	(52,328)
Forfeited	(599,878)	(14,208)
Available at the end of the year	1,669,557	3,376,191

Additional information on the long-term incentive plan are presented in Note 25.

The cost of long-term incentive plans recognized in income and attributable to key management (members of Board of Directors and executive officers) totaled R$ 10,999 during 2015 (R$ 16,043 and R$ 9,503 during 2014 and 2013, respectively).

Additionaly, for the year ended December 31, 2015, the compensation for the members of the Advisory Board was R$ 1,129 (R$ 0 in 2014).

Table of Contents

NOTE 19 EMPLOYEE BENEFITS

Total assets and liabilities of all types of employee benefits granted by the Company and its subsidiaries as of December 31, 2015, are as follows:

	2015	2014
Plan assets - Defined benefit pension plan	131,363	196,799
Plan assets - Defined contribution pension plan	9,025	
Total assets	140,388	196,799
Actuarial liabilities - Defined benefit pension plan	1,185,984	870,480
Acturial liabilities - Post-employment health care benefit	446,840	351,538
Retirement and termination benefit liabilities	73,197	84,831
Total liabilities	1,706,021	1,306,849
Current	18,535	34,218
Non-current	1,687,486	1,272,631

a) Post-employment defined benefit pension plan

The Company s Canadian and US subsidiaries sponsor defined benefit plans (Canadian Plan and American Plan), collectively referred to as the North-American Plans, that cover substantially all their employees and provide supplemental benefits to employees during retirement.

Additionally, the Company and its subsidiaries in Brazil sponsored a defined benefit pension plan (Brazilian plans), which are managed through Gerdau - Sociedade de Previdência Privada, a closed supplementary pension entity. In 2010, it was approved the settlement of a defined benefit plan, in which the participants had the rights for the benefit settled. All participants of those plans, which are now settled, were able to:
(i) choose to adhere to a new defined contribution plan, as further described in item b , when it was authorized to transfer the amount related to the individual mathematical reserve from the settled plan for the new plan and add amounts to this reserve through future contributions and sponsors, plus the resources profitability; or (ii) do not transfer the reserve and maintain the benefit settled in the defined benefit plan, adjusted by the INPC (National Index of Consumer Prices).

The assumptions adopted for pension plans can have a significant effect on the amounts disclosed and recorded for these plans. Due to the migration process and the closing of the Brazilian pension plans in 2010, the Company is not calculating the potential effects of changes in discount rates and return rate on assets for these plans. The potential effects of changes to the North-American Plans on the Consolidated Statement of Income are presented below:

	1% Increase	1% Decrease
Discount rate	(33,183)	38,205

The accumulated amount recognized in other Comprehensive Income for employee benefits is R$ (1,069,661) at December 31, 2015 (R$ (1,102,623) at December 31, 2014).

Defined Benefit Pension Plan

The current expenses of the defined benefit pension plans are as follows:

	2015	2014	2013
Cost of current service	121,962	78,271	80,072
Interest expense	226,406	160,864	158,179
Return on plan assets	(216,005)	(186,800)	(164,800)
Past service cost	(151,685)		(11,029)
Curtailment	(4,510)	(17,961)	
Interest cost on unrecoverable surplus	23,515	51,494	38,215
Net pension cost	(317)	85,868	100,637

Table of Contents

The reconciliations of assets and liabilities of the plans are as follows:

	2015	2014
Present value of defined benefit obligation	(4,739,299)	(3,791,670)
Fair value of plan assets	3,865,411	3,319,133
Asset ceiling restrictions on recognition of net funded assets	(180,733)	(201,144)
Net	(1,054,621)	(673,681)
Pension plan surplus	131,363	196,799
Pension plans deficit	(1,185,984)	(870,480)

Changes in plan assets and actuarial liabilities were as follows:

	2015	2014	2013
Variation of the plan obligations			
Obligation at the begining of the year	3,791,670	3,113,818	3,003,722
Cost of service	121,962	78,271	80,072
Interest expense	226,406	175,641	158,179
Payments of the benefits	(398,778)	(230,951)	(159,524)
Past service cost	(114,899)		(11,029)
Acturial remeasurements	(202,749)	466,829	(272,767)
Exchange Variance	1,356,983	278,843	315,165
Curtailment	(41,296)	(90,781)	
Obligation at the end of the year	4,739,299	3,791,670	3,113,818

	2015	2014	2013
Variation of the plan assets			
Fair value of the plan assets at the begining of the year	3,319,133	3,081,582	2,789,832
Return of the plan assets	216,005	201,576	164,800
Contributions from sponsors	(14,986)	44,679	90,237
Payments of benefits	(398,778)	(230,950)	(159,524)
Remeasurement	(235,275)	69,748	(33,417)
Exchange Variance	984,560	225,318	229,654
Curtailment	(5,248)	(72,820)	
Fair value of plan assets at the end of the year	3,865,411	3,319,133	3,081,582

The fair value of plan assets include shares of the Company in the amount of R$ 0 at December 31, 2015 (R$ 672 on December 31, 2014).

Amounts recognized as actuarial gains and losses in the Statement of Comprehensive Income are as follows:

	2015	2014	2013
Remeasurements	235,275	(69,748)	33,417
Actuarial Remeasurements	(202,749)	466,829	(272,767)

Restriction recognized in Other Comprehensive Income	(44,453)	(309,190)	(12,812)
Remeasurements recognized in Other Comprehensive Income	(11,927)	87,891	(252,162)

The historical actuarial remeasurements are as follows:

	2015	2014	2013	2012	2011
Present value of defined benefit obligation	(4,739,299)	(3,791,670)	(3,113,818)	(3,003,722)	(2,407,771)
Fair value of the plan assets	3,865,411	3,319,133	3,081,582	2,789,832	2,184,352
Surplus (Deficit)	(873,888)	(472,537)	(32,236)	(213,890)	(223,419)
Experience adjustments on plan liabilities (Gain)	(202,749)	466,829	(272,767)	300,328	386,540
Experience adjustments on plan assets (Gain)	235,275	(69,748)	33,417	(151,120)	208,940

Actuarial remeasurements are recognized in the period in which they occur and are recorded directly in comprehensive income.

The allocations for plan assets are presented below:

Table of Contents

	2015	
	Brazilian Plans	American Plans
Fixed income	100.0%	46.6%
Variable income		40.6%
Others		12.8%
Total	100%	100%

	2014	
	Brazilian Plans	American Plans
Fixed income	100.0%	46.1%
Variable income		41.8%
Others		12.1%
Total	100%	100%

The investment strategy for the Brazilian Plan is based on a long-term macroeconomic scenario. This scenario assumes a reduction in Brazil s sovereign risk, moderate economic growth, stable levels of inflation, exchange rates and moderate interest rates.

The Canadian and American subsidiaries have an Investment Committee that defines the investment policy for the defined benefit plans. The primary investment objective is to ensure the security of benefits that were accrued under the plans, providing an adequately funded asset pool which is separated and independent of the Company. To reach this objective, the fund must invest in a manner that adheres to safeguards and diversification to which a prudent investor of pension funds would normally adhere. These subsidiaries retain specialized consultants that advice and support Investment Committee decisions and recommendations.

The asset mix policy considers the principles of diversification and long-term investment goals, as well as liquidity requirements. To do this, the target allocation ranges between 60% in shares and 40% in debt securities.

The tables below show a summary of the assumptions used to calculate the defined benefit plans in 2015 and 2014, respectively:

	2015	
	Brazilian Plan	North America Plan
Average discount rate	12.68%	3.75% - 4.50%
Rate of increase in compensation	Not applicable	2.60% - 3.25%
Mortality table	AT-2000 per sex	COM-2014 and RP-2014
Mortality table of disabled	AT-2000 per sex	Rates by age
Rate of rotation	Based on service and salary level/null	Based on age and/or the service

	2014	
	Brazilian Plan	North America Plan
Average discount rate	11.69%	3.75% - 4.00%
Rate of increase in compensation	Not applicable	2.60% - 3.25%
Mortality table	AT-2000, per sex	RP-2000CH

Mortality table of disabled	AT-2000, per sex	Rates by age
Rate of rotation	Based on service and salary level/null	Based on age and/or the service

b) **Post-employment defined contribution pension plan**

The Company and its subsidiaries in Brazil, in the United States and in Canada maintain a defined contribution plan to which contributions are made by the sponsor in proportion to the contributions made by its participating employees. The total cost of these plans was R$ 102,899 in 2015 (R$ 115,346 in 2014).

Table of Contents

c) Post-employment health care benefit plan

The North American plans include, in addition to pension benefits, specific health care benefits for employees who retire after a certain age and with a certain number of years of service. The Americans and Canadian subsidiaries have the right to change or eliminate these benefits, and the contributions are actuarially calculated.

The net periodic costs of post-employment health care benefits are as follows:

	2015	2014	2013
Current service cost	5,935	4,701	5,011
Interests expense	18,981	16,389	17,253
Past service cost		(103,895)	(75,067)
Net cost pension benefit	24,916	(82,805)	(52,803)

The funded status of the post-employment health benefits plans is as follows:

	2015	2014
Present value of obligations	(446,842)	(351,538)
Total net liabilities	(446,842)	(351,538)

Changes in plan assets and actuarial liabilities were as follows:

	2015	2014	2013
Change in benefit obligation			
Benefit obligation at beginning of the year	351,538	369,065	405,723
Cost of service	5,935	5,121	5,374
Interest expense	18,981	15,969	16,890
Past service cost		(103,895)	(75,067)
Contributions from participants	2,206	1,769	2,816
Payment of benefits	(17,245)	(16,256)	(17,565)
Medical subsidy		510	1,302
Remeasurements	(45,884)	42,345	(20,980)
Exchange variations	131,311	36,910	50,593
Benefit obligation at the end of the year	446,842	351,538	369,086

	2015	2014	2013
Change in plan assets			
Contributions from sponsors	14,733	13,653	13,208
Contributions from participants	2,206	1,769	2,708
Medical subsidy		510	1,279
Payments of benefits	(16,939)	(15,932)	(17,195)

Fair value of plan assets at end of the year

The historical actuarial gains and losses of the plans are as follows:

	2015	2014	2013	2012	2011
Present value of defined benefit obligation	(446,842)	(351,538)	(369,086)	(405,723)	(343,713)
Deficit	(446,842)	(351,538)	(369,086)	(405,723)	(343,713)
Experience adjustments on plan liabilities	(45,884)	42,345	(20,980)	21,908	30,330

The amounts recognized as actuarial gains and losses in other comprehensive income are as follows:

	2015	2014	2013
Losses on actuarial obligation	(45,884)	42,345	(20,980)
Actuarial losses recognized in Equity	(45,884)	42,345	(20,980)

Table of Contents

The accounting assumptions adopted for post-employment health benefits are as follows:

	2015	2014
Average discount rate	3.75% - 4.50%	3.75% - 4.00%
Health treatment - rate assumed next year	6.80% - 7.05%	7.00% - 7.65%
Health treatment - Assumed rate of decline in the cost to achieve in the years of 2024 to 2029	4.00% - 4.50%	4.00% - 5.00%

The assumptions adopted for post-employment health benefits have a significant effect on the amounts disclosed and recorded for post-employment health benefits plans. The change of one point percentage on discount rates would have the following effects:

	1% Increase	1% Decrease
Effect over total service costs and interest costs	3,639	(2,878)
Effect over benefit plan obligations	57,389	(46,737)

d) Other retirement and termination benefits

The benefits of this plan provide a compensation supplement up to retirement date, cost of living allowance, and other benefits as a result of termination and retirement of the employees. The Company estimates that the total obligation for these benefits was R$ 73,197 as of December 31, 2015 (R$ 84,831 as of December 31, 2014).

NOTE 20 ENVIRONMENTAL LIABILITIES

The steel industry uses and generates substances that may damage the environment. The Company and its subsidiaries believe they are compliant with all the applicable environmental regulations in the countries where they operate. The Company s management performs frequent analysis with the purpose of identifying potentially impacted areas and a liability is recorded based on the best estimate of costs for investigation, treatment and cleaning of potentially affected sites. The Company uses estimates and assumptions to determine the amounts involved, which may change in the future, as result of the final investigations and the determination of the actual environmental impact. The balances of the provisions are as follows:

	2015	2014
Provision for environmental liabilities	163,806	116,421
Current	27,736	23,025
Non-current	136,070	93,396

NOTE 21 - OBLIGATIONS WITH FIDC - INVESTMENT FUND IN CREDIT RIGHTS

Part of the assets resulting from the favorable judgments of credits with Eletrobras mentioned in Note 17 iv were used to set up a Non Standardized Credit Right Investment Fund, constituted and duly authorized to operate by the Securities and Exchange Commission of Brazil (FIDC NP Barzel), whose fair value at the FIDC Inception date was R$ 800 million. According to Note 3.5, on July 14, 2015, the single quota that FIDC was sold in the acquisition of minority interests transaction in subsidiaries of Gerdau S.A.

The Company assures the FIDC, through the transfer agreement price adjustments clause, minimum return on the transferred amount of the credits rights on the lawsuits. However, where the amounts received in the lawsuits exceed the transferred amount, monetarily adjusted, the Company will be entitled to a percentage of that gain. Additionally, the Company has the right of first offer to repurchase those receivables in the event of sale by the Fund, in accordance to the contract subscribed, and has the amount of R$ 853,252 recognized in the account Payables to FIDC .

NOTE 22 EQUITY

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

Table of Contents

Reconciliations of common and preferred outstanding shares are presented below:

	2015		2014		2013	
	Common shares	Preferred shares	Common shares	Preferred shares	Common shares	Preferred shares
Balance at beginning of the year	571,929,945	1,132,613,562	571,929,945	1,132,285,402	571,929,945	1,128,534,345
Treasure shares acquiring		(19,923,200)				
Exercise of stock options		2,054,176		328,160		3,751,057
Balance at the end of the year	571,929,945	1,114,744,538	571,929,945	1,132,613,562	571,929,945	1,132,285,402

At December 31, 2015, 573,627,483 common shares and 1,146,031,245 preferred shares are subscribed and paid up, with a total capital of R$ 19,249,181 (net of share issuance costs). Ownership of the shares is presented below:

			Shareholders 2015			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	49,834,446	8.7	73,696,224	6.4	123,530,670	7.2
Foreign institutional investors	13,881,226	2.4	632,717,431	55.2	646,598,657	37.6
Other shareholders	58,501,619	10.2	155,489,399	13.6	213,991,018	12.4
Treasury stock	1,697,538	0.3	31,286,707	2.7	32,984,245	1.9
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

			2014			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	30,103,837	5.2	152,013,820	13.3	182,117,657	10.6
Foreign institutional investors	21,604,383	3.8	578,731,779	50.4	600,336,162	34.9
Other shareholders	70,509,071	12.3	149,026,479	13.0	219,535,550	12.8
Treasury stock	1,697,538	0.3	13,417,683	1.2	15,115,221	0.8
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

			2013			
Shareholders	Common	%	Pref.	%	Total	%
Metalúrgica Gerdau S.A.*	449,712,654	78.4	252,841,484	22.1	702,554,138	40.9
Brazilian institutional investors	29,436,374	5.1	171,866,798	15.0	201,303,172	11.7
Foreign institutional investors	21,919,936	3.8	562,964,554	49.1	584,884,490	34.0
Other shareholders	70,860,981	12.4	144,612,566	12.6	215,473,547	12.5
Treasury stock	1,697,538	0.3	13,745,843	1.2	15,443,381	0.9
	573,627,483	100.0	1,146,031,245	100.0	1,719,658,728	100.0

* Metalurgica Gerdau S.A. is the controlling shareholder and Stichting Gerdau Johanpeter is the utltimate controlling shareholder of the Company.

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

b) Treasury stocks

Changes in treasury stocks are as follows:

	2015			
	Common shares	**R$**	**Preferred shares**	**R$**
Opening balance	1,697,538	557	13,417,683	232,585
Repurchases			19,923,200	186,033
Exercise of stock options			(2,054,176)	(35,812)
Closing balance	1,697,538	557	31,286,707	382,806

	2014			
	Common shares	**R$**	**Preferred shares**	**R$**
Opening balance	1,697,538	557	13,745,843	238,414
Exercise of stock options			(328,160)	(5,829)
Closing balance	1,697,538	557	13,417,683	232,585

Table of Contents

	2013			
	Common shares	R$	Preferred shares	R$
Opening balance	1,697,538	557	17,496,900	289,683
Exercise of stock options			(3,751,057)	(51,269)
Closing balance	1,697,538	557	13,745,843	238,414

These shares are held in treasury for subsequent cancellation, selling in the market or to be granted under the long-term incentive plan of the Company. The average acquisition cost of these shares was R$ 12.24 during 2015 (R$ 17.34 and R$ 17.34 during the years ended December 31, 2014 and 2013, respectively). In accordade to Note 3.5, the Company acquired non-controlling interests in some subsidiaries using as part of the payment 30 million of preferred shares of Gerdau S.A. (GGBR4), hold in treasury, which are pending of approval from the Brazilian Securities Commission (CVM), and, because of that, are still being presented as treasury stocks.

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

d) Retained earnings

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

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

III) Investments and working capital reserve - consists of earnings not distributed to shareholders and includes the reserves required by the Company s by-laws. The Board of Directors may propose to the shareholders the transfer of at least 5% of the profit for each year determined in its statutory books in accordance with accounting practices adopted in Brazil to this reserve. Amount can be allocated to the reserve only after the minimum dividend requirements have been met and its balance cannot exceed the amount of paid-in capital. The reserve can be used to absorb losses, if necessary, for capitalization, for payment of dividends or for the repurchase of shares.

IV) Pension Plan - actuarial gains and losses on postretirement benefits.

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

The effects of interest changes in subsidiaries for the years presented are composed of:

	December 31, 2015		
	Attributed to parent company s interest	Non-controlling interests	Total
(iii) Acquisition of non-controlling interests as per note 3.5		(837,437)	(837,437)
(iv) Other changes		12,726	12,726
Effects of interest changes in subsidiaries		(824,711)	(824,711)

	December 31, 2014		
	Attributed to parent company s interest	Non-controlling interests	Total
(i) Changes in the Paraopeba Fixed Income Investment Fund		(550,000)	(550,000)
(iv) Other changes		(114,767)	(114,767)
Effects of interest changes in subsidiaries		(664,767)	(664,767)

Table of Contents

	December 31, 2013		
	Attributed to parent company s interest	Non-controlling interests	Total
(i) Changes in the Paraopeba Fixed Income Investment Fund		42,097	42,097
(ii) Reclassification of balances due to changes in subsidiaries ownership as per note 3.1	(4,335)	4,335	
(iv) Other changes		(27,637)	(27,637)
Effects of interest changes in subsidiaries	(4,335)	18,795	14,460

(i) Changes in the Paraopeba Fixed Income Investment Fund (Note 3.1), which is managed by JP Morgan, due to changes in the amount invested by each subsidiary of the Company in comparison with the amount of investments held by non-consolidated entities (related parties); (ii) increases and decreases in the amounts attributed to the parent company and in the amounts attributed to non-controlling interests due to changes in subsidiaries ownership not resulting in a change of control; (iii) Acquisition of non-controlling interests in some Brazilian subsidiaries as described in note 3.5; (iv) Other changes in subsidiaries without losing control, which may include among others, capital increases, other acquisitions of interests and dilutions of any nature.

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

g) Dividends and interest on capital - the shareholders have a right to receive a minimum annual mandatory dividend equal to 30% of adjusted net income as determined in its corporate records prepared in accordance with the accounting practices adopted in Brazil. The Company calculated interest on shareholders´ capital for the year in accordance with the terms established by Law 9249/95. The corresponding amount was recorded as a financial expense for tax purposes. For presentation purposes, this amount was recorded as dividends and did not affect net income. The related tax benefit from the reduction in income tax and social contribution on net income was R$ 63,074 for 2015 (R$ 69,547 in 2014).

The interest on capital and dividends credited during the year totaled R$ 252,976, which were distributed based on earnings obtained in the first semester of 2015 and retained earnings. Due to net net loss of 2015, the management of the Company will propose in the General Shareholders Meeting that the amount distributed in 2015 be considered as distributed using Retained Earnings balance (Investments and working capital reserve), as follows:

	2015	2014	2013
Net income (loss)	(4,551,438)	1,402,873	1,583,731
Constitution of legal reserve		(70,144)	(79,187)
Constitution of the tax incentives reserve		(51,126)	(69,514)
Net income before dividends and interest on capital	(4,551,438)	1,281,603	1,435,030
Dividends and interest on capital		(426,141)	(476,667)
Net income (loss) before constitution of investments and working capital reserve	(4,551,438)	855,462	958,363

Constitution of investments and working capital reserve		(855,462)	(958,363)
Absorption of net loss by investments and working capital reserve	4,551,438		

				Dividends and interest on capital in the years				
Period	**Nature**	**R$ /share**	**Outstanding shares (thousands)**	**Credit**	**Payment**	**2015**	**2014**	**2013**
1st quarter	Interest	0.06	1,686,329	5/21/2015	2/6/2015	(101,200)	(119,331)	
1st quarter	Dividends							(34,013)
2nd quarter	Dividends						(102,268)	(119,047)
2nd quarter	Interest	0.05	1,686,366	8/24/2015	4/9/2015	(84,318)		
3rd quarter	Interest						(85,224)	(204,312)
3rd quarter	Dividends	0.04	1,686,459	11/09/2015	11/19/2015	(67,458)		
4th quarter	Dividends						(119,318)	(119,295)
						(252,976)	(426,141)	(476,667)
Credit per share (R$)						0.15	0.25	0.28

The remaining income for the previous year was transferred to a statutory reserve for investments and working capital in accordance with Company by-laws.

Table of Contents

NOTE 23 EARNINGS PER SHARE (EPS)

In compliance with IAS 33, Earnings per Share, the following tables reconcile net income to the amounts used to calculate basic and diluted earnings per share. For the year ended on December 31, 2015, the potential common shares, as presented below, were excluded from the calculation of diluted net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same.

Basic

	2015		
	Common	**Preferred**	**Total**
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income (loss) available to common and preferred shareholders	(1,541,242)	(3,010,196)	(4,551,438)
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,117,034,926	
Earnings per share (in R$) Basic	(2.69)	(2.69)	

	2014		
	Common	**Preferred**	**Total**
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income available to common and preferred shareholders	470,746	932,127	1,402,873
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,132,483,383	
Earnings per share (in R$) Basic	0.82	0.82	

	2013		
	Common	**Preferred**	**Total**
	(in thousands, except share and per share data)		
Basic numerator			
Allocated net income available to common and preferred shareholders	532,464	1,051,267	1,583,731
Basic denominator			
Weighted-average outstanding shares, after deducting the average tresuary shares	571,929,945	1,129,184,775	
Earnings per share (in R$) Basic	0.93	0.93	

Table of Contents

Diluted

	2015	2014	2013
Diluted numerator			
Allocated net income (loss) available to Common and Preferred shareholders			
Net income (loss) allocated to preferred shareholders	(3,010,196)	932,127	1,051,267
Add:			
Adjustment to net income (loss) allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	(6,633)	714	1,851
	(3,016,829)	932,841	1,053,118
Net income (loss) allocated to common shareholders	(1,541,242)	470,746	532,464
Less:			
Adjustment to net income (loss) allocated to preferred shareholders in respect to the potential increase in number of preferred shares outstanding, as a result of options granted to acquire stock of Gerdau.	6,633	(714)	(1,851)
	(1,534,609)	470,032	530,613
Diluted denominator			
Weighted - average number of shares outstanding			
Common Shares	571,929,945	571,929,945	571,929,945
Preferred Shares			
Weighted-average number of preferred shares outstanding	1,117,034,926	1,132,483,383	1,129,184,775
Potential increase in number of preferred shares outstanding in respect of stock option plan	7,299,735	2,588,297	5,937,260
Total	1,124,334,661	1,135,071,680	1,135,122,035
Earnings per share Diluted (Common and Preferred Shares)	(2.69)	0.82	0.93

The Company had no instruments excluded from the calculation of diluted EPS because they were antidilutive.

NOTE 24 NET SALES REVENUE

The net sales revenues for the year are composed of:

	2015	2014	2013
Gross sales	48,701,895	47,866,687	45,716,601
Taxes on sales	(3,184,879)	(4,098,426)	(4,179,096)
Discounts	(1,935,775)	(1,221,922)	(1,674,468)
Net sales	43,581,241	42,546,339	39,863,037

NOTE 25 - LONG-TERM INCENTIVE PLANS

a) Stock Options Plan:

	2015		2014		2013	
	Number of shares	**Average exercise price in the year R$**	**Number of shares**	**Average exercise price in the year R$**	**Number of shares**	**Average exercise price in the year R$**
Available at beginning of the year	2,448,973	19.53	2,793,495	19.44	13,481,041	17.34
Options Granted					1,947,564	18.58
Options Exercised	(25,210)	19.56	(52,340)	17.34	(2,388,004)	9.60
Options Forfeited	(1,349,517)	20.98	(292,182)	19.47	(279,004)	20.22
Converted to Restricted Shares					(9,968,102)	18.96
Available at the end of the year	1,074,246	18.36	2,448,973	19.53	2,793,495	19.44

The average market price of the share in the year ended December 31, 2015 was R$ 7.70 (R$ 13.31 and R$ 16.01 in the years ended December 31, 2014 and 2013, respectively).

Table of Contents

As of December 31, 2015 the Company has a total of 31,286,707 preferred shares in treasury. These shares may be used for serving this plan. The exercise of the options before the grace period end was due to retirement or death.

Exercise price	Quantity	Average period of grace (in years)	Average exercise price R$	Number exercisable at December 31, 2015*
R$ 16.99	80,742	3.2	14.52	80,742
R$ 53.26	12,581	1.2	45.54	12,581
R$ 77.47	8,953	2.2	66.24	8,953
R$ 10.58 to R$ 29.12	971,970	5.0	17.88	25,623
	1,074,246			127,899

*The total of options vested that are exercisable on December 31, 2015 is 127,899 (176,891 and 252,372 on December 31, 2014 and 2013).

During the years ended December 31, 2015, 2014 and 2013, the long-term incentive plans costs recognized in income for all equity settled awards were R$ 39,657, R$ 36,209 and R$ 30,945, respectively.

The Company recognizes costs of employee compensation based on the fair value of the options granted, considering their fair value on the date of granting. The Company uses the Black-Scholes model for determining the fair value of the options. There were no options granted for this plan in 2015.

b) Restricted Shares and Performance Shares Summary:

Balance on January 1, 2013	**1,024,876**
Granted	597,472
Addition due to the Convertion from SARs	2,898,828
Addition due to the Convertion from Stock Options	5,234,336
Forfeited	(652,956)
Exercised	(1,731,341)
Balance on December 31, 2013	**7,371,215**
Granted	3,981,219
Forfeited	(739,017)
Exercised	(527,183)
Balance on December 31, 2014	**10,086,234**
Granted	9,098,389
Forfeited	(2,717,724)
Exercised	(3,941,643)
Balance on December 31, 2015	**12,525,256**

c) Other Plans North America

In February 2010, the Board of Directors approved the adoption of the Equity Incentive Plan (the EIP). Awards under the EIP may take the form of stock options, SARs, deferred share units (DSUs), restricted share units (RSUs), performance share units (PSUs), restricted stock, and/or other share-based awards. Except for stock options, which must be settled in common shares, awards may be settled in cash or common shares as determined by the Company at the time of grant.

For the portion of any award which is payable in options or SARs, the exercise price of the options or SARs will be no less than the fair market value of a common share on the date of the award. The vesting period for all awards (including RSUs, DSUs and PSUs) is determined by the Company at the time of grant. Options and SARs have a maximum term of 10 years.

In 2015, an award of approximately US$ 13.9 million (R$ 46.4 million) was granted to participants under the EIP. The Company issued 3,833,542 RSUs, and 1,792,456 PSUs under this plan. This award has being accrued over the vesting period of 5 years.

Table of Contents

In 2014, an award of approximately US$ 11.7 million (R$ 27.5 million) was granted to participants under the EIP. The Company issued 767,027 RSUs, and 1,150,541 PSUs under this plan. This award has being accrued over the vesting period of 5 years.

In 2013, an award of approximately US$ 11.9 million (R$ 31.6 million) was granted to participants under the EIP. The Company issued 2,423,379 equity-settled SARs, 198,552 RSUs, and 398,920 PSUs under this plan. This award has being accrued over the vesting period of 5 years.

In connection with the adoption of the EIP, the Company terminated the existing long-term incentive plan (LTIP), and no further awards will be granted under the LTIP. All outstanding awards under the LTIP will remain outstanding until either exercised, forfeited or they expire. On December 31, 2015, there were 585,310 SARs and 102,276 stock options outstanding under the LTIP. These awards have been accrued over the vesting period of 4 years.

As of December 31, 2015 and December 31, 2014, the outstanding liability for share-based payment transactions included in other non-current liabilities of the subsidiaries in North America was US$ 0 and US$ 370 thousand (R$ 983 thousand), respectively.

NOTE 26 SEGMENT REPORTING

On July 14, 2015, the Company announced changes in the composition of its segments, with implementation as from the 2015 third quarter results financial statements, in order to capture greater strategic and operating synergies in the customer service operations for the South American, North American and Brazilian markets: (a) the operations in Mexico and the Joint Ventures in the Dominican Republic, Guatemala and Mexico become part of the North America Business Operation, which is currently formed by the long steel operations in Canada and United States; (b) the South America Business Operation is created, which will be formed by the long steel operations in Argentina, Chile, Colombia, Peru, Venezuela and Uruguay; (c) the Iron Ore operations become part of the Brazil Business Operation, which is currently formed by the long and flat steel operations in Brazil and the metallurgical coal and coke operations in Colombia: (d) the Special Steel Business Operation will remain unchanged, which is formed by the special steel operations in Brazil, Spain, United States and India.

For disclosure purposes, the comparative information has been modified regarding the originally presented information, in order to reflect the changes approved by the Gerdau Executive Committee, according to the criteria established by IFRS 8.

	Business Segments 2015					
	Brazil Operation	**North America Operation**	**South America Operation**	**Special Steels Operation**	**Eliminations and Adjustments**	**Consolidated**
Net sales	12,977,327	17,312,166	5,477,228	8,882,071	(1,067,551)	43,581,241
Cost of sales	(11,433,115)	(15,800,270)	(4,800,063)	(8,333,189)	1,076,111	(39,290,526)
Gross profit	1,544,212	1,511,896	677,165	548,882	8,560	4,290,715
	(821,152)	(814,393)	(313,521)	(371,481)	(261,938)	(2,582,485)

Selling, general and administrative expenses						
Other operating income (expenses)	3,638	18,379	2,985	21,791	50,207	97,000
Impairment of assets	(834,665)	(1,882,239)	(354,468)	(1,924,868)		(4,996,240)
Equity in earnings of unconsolidated companies		(34,289)	(1,935)		11,722	(24,502)
Operational (Loss) income before financial income (expenses) and taxes	(107,967)	(1,200,646)	10,226	(1,725,676)	(191,449)	(3,215,512)
Financial result, net	(624,526)	(234,183)	(98,557)	(288,021)	(1,633,609)	(2,878,896)
Income (Loss) before taxes	(732,493)	(1,434,829)	(88,331)	(2,013,697)	(1,825,058)	(6,094,408)
Income and social contribution taxes	60,804	5,196	(104,308)	(283,633)	1,820,363	1,498,422
Net income (Loss)	(671,689)	(1,429,633)	(192,639)	(2,297,330)	(4,695)	(4,595,986)
Supplemental information:						
Net sales between segments	817,494	121,292	685	128,080		1,067,551
Depreciation/amortization	928,861	836,660	192,014	650,374		2,607,909
Investments in associates and jointly-controlled entities		1,301,201		2,082	89,599	1,392,882
Total assets	20,791,119	27,900,130	6,470,593	17,077,208	(2,144,341)	70,094,709
Total liabilities	12,831,815	7,214,899	2,451,835	9,369,552	6,256,225	38,124,326

Table of Contents

	Business Segments 2014					
	Brazil Operation	North America Operation	South America Operation	Special Steels Operation	Eliminations and Adjustments	Consolidated
Net sales	14,813,344	14,640,085	5,078,483	8,643,865	(629,438)	42,546,339
Cost of sales	(12,003,410)	(13,692,783)	(4,422,768)	(7,921,906)	634,539	(37,406,328)
Gross profit	2,809,934	947,302	655,715	721,959	5,101	5,140,011
Selling, general and administrative expenses	(922,597)	(752,868)	(332,982)	(378,035)	(341,465)	(2,727,947)
Other operating income (expenses)	20,117	15,693	(28,810)	28,743	52,150	87,893
Impairment of assets		(31,921)	(307,453)			(339,374)
Gains in joint ventures operations		636,528				636,528
Equity in earnings of unconsolidated companies		83,164	(5,052)		23,763	101,875
Operational (Loss) income before financial income (expenses) and taxes	1,907,454	897,898	(18,582)	372,667	(260,451)	2,898,986
Financial result, net	(536,542)	(161,190)	(65,823)	(180,913)	(616,534)	(1,561,002)
Income before taxes	1,370,912	736,708	(84,405)	191,754	(876,985)	1,337,984
Income and social contribution taxes	(357,148)	(98,379)	(25,610)	(68,675)	700,201	150,389
Net income	1,013,764	638,329	(110,015)	123,079	(176,784)	1,488,373
Supplemental information:						
Net sales between segments	408,089	86,651	2,499	132,199		629,438
Depreciation/amortization	906,775	590,585	184,916	545,120		2,227,396
Investments in associates and jointly-controlled entities		1,248,339	20,250	1,580	124,214	1,394,383
Total assets	22,067,352	20,441,298	5,792,553	15,400,776	(659,649)	63,042,330
Total liabilities	11,044,078	5,182,550	1,958,599	7,382,045	4,220,524	29,787,796

	Business Segments 2013					
	Brazil Operation	North America Operation	South America Operation	Special Steels Operation	Eliminations and Adjustments	Consolidated
Net sales	15,111,033	13,163,587	4,797,334	8,023,058	(1,231,975)	39,863,037
Cost of sales	(11,894,313)	(12,517,352)	(4,234,531)	(7,308,700)	1,226,436	(34,728,460)
Gross profit	3,216,720	646,235	562,803	714,358	(5,539)	5,134,577
Selling, general and administrative expenses	(939,600)	(668,599)	(285,478)	(327,569)	(390,630)	(2,611,876)
Other operating income (expenses)	129,370	12,034	(1,442)	17,623	20,136	177,721
Equity in earnings of unconsolidated companies		37,335	(2,182)		18,848	54,001
Operational (Loss) income before financial income (expenses) and taxes	2,406,490	27,005	273,701	404,412	(357,185)	2,754,423
Financial result, net	(134,503)	(195,427)	(66,747)	(130,250)	(774,850)	(1,301,777)
Income before taxes	2,271,987	(168,422)	206,954	274,162	(1,132,035)	1,452,646
Income and social contribution taxes	(566,779)	152,399	(68,409)	(117,447)	841,292	241,056
Net income	1,705,208	(16,023)	138,545	156,715	(290,743)	1,693,702

Supplemental information:						
Net sales between segments	891,218	184,492	2,898	153,367		1,231,975
Depreciation/amortization	822,221	536,389	165,999	504,898		2,029,507
Investments in associates and jointly-controlled entities		1,429,705	26,120	1,288	132,918	1,590,031
Total assets	20,345,227	18,557,921	6,278,871	14,830,092	(1,797,071)	58,215,040
Total liabilities	9,523,647	4,747,013	1,923,902	6,912,854	3,086,867	26,194,283

The main products sold in each segment are:

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

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

South America Operations: rebar, bars and drawn products.

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

The column of eliminations and adjustments includes the elimination of sales between segments in the context of the Consolidated Financial Statements.

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

	Brazil 2015	**Latin America (1) 2015**	**North America (2) 2015**	**Europe/Asia 2015**	**Geographic Area Consolidated 2015**
Net sales	14,033,792	6,653,980	19,813,519	3,079,950	43,581,241
Total assets	22,803,505	9,327,457	36,048,019	1,915,728	70,094,709

	Brazil 2014	**Latin America (1) 2014**	**North America (2) 2014**	**Europe/Asia 2014**	**Consolidated 2014**
Net sales	16,428,472	6,063,220	17,250,898	2,803,749	42,546,339
Total assets	24,503,901	8,409,583	26,288,644	3,840,202	63,042,330

	Brazil 2013	**Latin America (1) 2013**	**North America (2) 2013**	**Europe/Asia 2013**	**Consolidated 2013**
Net sales	16,134,963	5,989,926	15,416,686	2,321,462	39,863,037
Total assets	22,036,970	8,478,180	23,843,862	3,856,028	58,215,040

(1) Does not include operations of Brazil

(2) Does not include operations of Mexico

IFRS requires the Company to disclose revenue per product unless the information is not available and the cost to obtain it would be excessive. Management does not consider this information useful for its decision making process, because it would aggregate sales in different markets and in different currencies, subject to the effects of changes in exchange rates. Furthermore, the trends of steel consumption and the price dynamics of each product or group of products in different countries and different markets within these countries are poorly correlated and, as a result, the information would not be useful and would not serve to conclude about historical trends. Considering this scenario and considering that the information of revenue by product is not maintained by the Company on a consolidated basis and the cost to obtain the revenue per

Table of Contents

product information would be excessive compared to the benefits of the information, the Company does not present revenue by product.

NOTE 27 INSURANCE

The subsidiaries have insurance coverage determined by management with the assistance of specialists advice, taking into consideration the nature and the level of risk, in amounts that cover significant losses on their assets and/or liabilities. The main types of insurance are as follows:

Type	Scope	2015	2014
Equity	Inventories and property, plant and equipment items are insured against fire, electrical damage, explosion, machine breakage and overflow (leakage of material in fusion state).	76,880,135	48,291,077
Business Interruption	Net income plus fixed expenses	13,286,365	9,694,293
Civil Liability	Industrial operations	675,082	467,887

NOTE 28 IMPAIRMENT OF ASSETS

The Company performs tests for impairment of assets, notably goodwill and other long-lived assets, based on projections of discounted cash flows, which take into account assumptions such as: cost of capital, growth rate and adjustments applied to flows in perpetuity, methodology for working capital determination, investment plans, and long-term economic-financial forecasts. The impairment test of these assets are assessed based on the analysis of facts or circumstances that may indicate the need to perform the impairment test and are performed annually in December, or being anticipated whenever changes in events or circumstances indicate that the goodwill and other long-lived assets may be impaired.

To determine the recoverable amount of each business segment, the Company uses the discounted cash flow method, using as basis, financial and economic projections for each segment. The projections are prepared by taking into consideration observed changes in the economic scenario in the market where the Company operates, as well as assumptions with respect to future results and the historical profitability of each segment.

The Company maintains its monitoring of the steel market in order to identify any deterioration, significant drop in demand from steel consuming sectors (notably automotive and construction), stoppage of industrial plants or relevant changes in the economy or financial market that result in increased perception of risk or reduction of liquidity and refinancing capacity. Additionally, as described in Note 26 Segment Reporting, as from the 2015 third quarter results disclosure, the Company made changes to the composition of its business segments.

Based on these events mentioned above, associated with the changes in the segment reporting, the Company concluded the need for an interim impairment test of goodwill and other long-lived assets for the third quarter of 2015, in which losses were identified of assets in the amount of R$ 1,867,586, of which R$ 1,161,688 related to other long-lived assets and R$ 705,898 related to goodwill.

During the fourth quarter of 2015, the Company verified a deterioration in the economic scenario in some steel consuming markets at an intensity greater than the one considered in the impairment tests scenarios in the previous quarter. These circumstances resulted in an increase in the discount rate used in the projections of its business segments cash flows.

The Company, then, concluded for the need to perform the goodwill and other long-lived assets impairment test for the fourth quarter of 2015, in which losses were identified by impairment of assets in the amount of R$ 3,128,654, of which R$ 834,665 related to other long-lived assets (Note 28.1) and R$ 2,293,989 related to goodwill (Note 28.2).

Considering the tests performed in the third and fourth quarter of 2015, the impairment losses were R$ 4,996,240 in 2015 (R$ 339,364 in 2014), of which R$ 1,996,353 in 2015 (R$ 339,364 in 2014) related toother long-lived assets and R$ 2,999,887 in 2015 (R$ 0 in 2014) related to goodwill.

28.1 Other assets Impairment test

In the third quarter of 2015, due to the review of the investment plan in certain industrial plants and the shutdown of certain activities due to relevant changes in the economy of the region where these units are located, the tests in other long-lived assets identified impairment losses as follows: a) in fixed assets in certain industrial plants in the Special Steel segment due to

Table of Contents

the recoverable amount being below the book value in R$ 799,902. These losses were determined based on the difference between the carrying amount and the recoverable amount of these assets in the amount of R$ 1,930,813 representing its value in use (higher of fair value less cost to sell or its value in use); b) the investment accounted by the equity method of the associate company Corporación Centroamericana del Acero S.A., belonging to the North America segment due to recoverable amount below the carrying amount in R$ 361,786. These losses were determined based on the difference of carrying amount and the recoverable amount of these assets in the amount of R$ 215,808 representing its value in use (higher of fair value less cost to sell or its value in use).

Additionally, in the fourth quarter of 2015 due to the deteriorating economic conditions in a greater intensity than contemplated in the scenarios of the impairment test performed in the previous quarter and, combined with the lack of expected future use of certain assets of certain industrial plants in the Brazil segment, the tests performed in other long-lived assets identified impairment losses in the fixed assets in the amount of R$ 834,665.

Considering the tests performed in the third and fourth quarter of 2015, the impairment losses of the impairment test of other long-lived assets were R$ 1,996,353 in 2015 (R$ 339,364 in 2014).

The discount rates before income tax used for this test are the same as presented in note 28.2 of the goodwill impairment test.

28.2 Goodwill impairment test

The Company has four operating segments, which represents the lowest level in which goodwill is monitored by the Company. On the third quarter of 2015, the Company performed an impairment test of goodwill for its all segments. The analysis performed indicated a goodwill impairment loss in the amount of R$ 351,430 for the North America segment and R$ 354,468 for the South America segment, which represents the total goodwill of this segment. The segments Brazil and Special Steel did not presented goodwill impairment losses in the test performed.

In the fourth quarter of 2015, based on the circumstances previously described, the Company performed a goodwill impairment test for the North America, Special Steel and Brazil segments. The test identified goodwill impairment losses in the amount of R$ 1,169,023 for the North America segment and R$ 1,124,966 for the Special Steel segment. The Brazil segment did not presented goodwill impairment losses in the year.

Considering the tests performed in the third and fourth quarters of 2015, the goodwill impairment losses were R$ 2,999,887 in 2015 (R$ 0 in 2014).

The period for projecting the cash flows for the goodwill impairment test was five years. The assumptions used to determine the value in use based on the discounted cash flow method include prepared in dollars: projected cash flows based on Management estimates for future cash flows, exchange rates, discount rates and growth rates on perpetuity. The cash flow projections already reflect a more challenging competitive scenario than projected in previous years, resulting from a deterioration in the steel consuming markets and overcapacity in the industry, as well as macroeconomic challenges in some geographies in which the Company operates. The perpetuity was calculated considering stable operating margins, levels of working capital and investments. The perpetuity growth rates considered in the third and fourth quarters tests were: a) North

America: 3% (3% in December 2014); b) Special Steel: 3% (3% in December 2014); c) South America: 2.2% (3% in December 2014); d) Brazil: 3% (3% in December 2014).

The pre-tax discount rates used were determined taking into consideration market information available on the date of performing the impairment test. The Company adopted distinct rates for each business segment tested with the purpose of reflecting the differences among the markets in which each segment operates, as well as the risks associated to each of them. The pre-tax discount rates used were: a) North America: 12.3% in the fourth quarter in 2015 and 11.7% in the third quarter of 2015 (11.4% in December 2014); Special Steel: 12.8% in the fourth quarter of 2015 and 12.4% in the third quarter of 2015 (12.5% in December 2014); c) South America: 13.7% in the third quarter of 2015 (11.9% in December 2014) and d) Brazil: 15.5% in the fourth quarter of 2015 and 14.2% in the third quarter of 2015 (13.9% in December 2014).

The discounted cash flows are compared to the carrying amount of each segment and result in the recoverable amount as follows: a) North America: below the carrying amount in R$ 1,169 million (exceeded the carrying amount in R$ 1,699 million in December 2014); b) South America: below the carrying amount in R$ 354 million (exceeded the carrying amount in R$ 668 million in December 2014); c) Special Steel: below the carrying amount in R$ 1,125 million (exceeding the carrying amount in R$ 1,591 million in December 2014); and d) Brazil: exceeded the carrying amount in R$ 43 million (exceeded the carrying amount in R$ 3.103 million in December 2014).

The Company performed a sensitivity analysis in the assumptions of discount rate and perpetuity growth rate, due to the potential impact in the discounted cash flows.

Table of Contents

An increase of 0.5% in the discount rate to discount the cash flow of each segment would result in recoverable amounts that are below the book value or exceed the book value as follows: a) North America: below the book value in R$ 1,452 million (exceeded the book value in R$ 394 million in December 2014); b) Special Steel: below the book value in R$ 582 million (exceeded the book value in R$ 785 million in December 2014); c) South America: below the book value in R$ 354 million (exceeded the book value in R$ 186 million in December 2014); and d) Brazil: below the book value in R$ 765 million (exceeded the book value in R$ 2,073 million in December 2014).

On the other hand, a decrease of 0.5% in the perpetuity growth rate used in the discounted cash flow for each segment would result in recoverable amounts below the book value and/or exceed the book value as follows: a) North America: below the book value in R$ 1,076 million (exceeded the book value in R$ 678 million in December 2014); b) Special Steel: below the book value in R$ 428 million (exceeded the book value in R$ 976 million in December 2014); c) South America: below the book value in R$ 253 million (exceeded the book value in R$ 310 million in December 2014); and d) Brazil: below the book value in R$ 514 million (exceeded the book value in R$ 2,365 million in December 2014).

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

NOTE 29 EXPENSES BY NATURE

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

	2015	**2014**	**2013**
Depreciation and amortization	(2,607,909)	(2,227,396)	(2,029,507)
Labor expenses	(7,018,129)	(6,444,454)	(6,077,868)
Raw material and consumption material	(27,126,417)	(26,472,335)	(24,545,626)
Credit Recovery		141,336	329,084
Freight	(2,538,071)	(2,262,143)	(2,075,459)
Impairment of assets	(4,996,240)	(339,374)	
Gains in joint ventures operations		636,528	
Other expenses/income, net	(2,485,485)	(2,781,390)	(2,763,239)
	(46,772,251)	(39,749,228)	(37,162,615)
Classified as:			
Cost of sales	(39,290,526)	(37,406,328)	(34,728,460)
Selling expenses	(785,002)	(691,021)	(658,862)
General and administrative expenses	(1,797,483)	(2,036,926)	(1,953,014)
Other operating income	213,431	238,435	318,256
Other operating expenses	(116,431)	(150,542)	(140,535)
Impairment of assets	(4,996,240)	(339,374)	
Gains in joint ventures operations		636,528	

	(46,772,251)	(39,749,228)	(37,162,615)

Table of Contents

NOTE 30 FINANCIAL INCOME

	2015	2014	2013
Income from short-term investments	270,742	144,723	135,040
Monetary variation on credit recovery			41,053
Interest income and other financial income	107,660	131,526	116,817
Financial Income	378,402	276,249	292,910
Interest on debt	(1,471,526)	(1,178,034)	(901,273)
Monetary variation and other financial expenses	(308,840)	(219,341)	(152,112)
Financial Expenses	(1,780,366)	(1,397,375)	(1,053,385)
Exchange Variation, net	(1,564,017)	(476,367)	(544,156)
Gains and losses on financial instruments, net	87,085	36,491	2,854
Financial result, net	**(2,878,896)**	**(1,561,002)**	**(1,301,777)**

NOTE 31 SUBSEQUENT EVENTS

I) On January 27, 2016, the Company announced its plans to form a joint venture with the companies Sumitomo Corporation and The Japan Steel Works (JSW) to serve Brazil s growing wind power industry. The project, which will require approval from anti-trust authorities, is expected to be located in Pindamonhangaba (São Paulo) and will supply parts for wind turbine towers starting in 2017. The execution and formalization of the joint venture is pending of analysis and approval by the applicable authorities.

II) On February 4, 2016, the Company announced that it has signed a technical cooperation agreement with JFE Steel Corporation for the production in Brazil of heavy plates, a value added steel good, to serve the market in the Americas. The agreement will optimize the learning curve of the heavy plate rolling mill, which will have the most modern technological resources and it will start operations in July/16 at the Ouro Branco Mill in the state of Minas Gerais.

III) Operation Zelotes

As described in Note 17, certain subsidiaries of Gerdau S.A. (collectively, Company) are parties to ongoing proceedings before the Administrative Board of Tax Appeals (CARF), an administrative organ of the Brazilian Ministry of Finance.

In March 2015, it was reported in the press that the Brazilian Federal Police had started an operation called Zelotes (Operation), to investigate whether a number of corporate taxpayers attempted to influence the decisions of CARF through illegal means. On April 6, 2015, the Company received Official Communication 134/2015/CVM/SEP/GEA-2 from the Brazilian Securities Commission (CVM) requesting clarifications regarding news reports linking the Company to the Operation. The Company clarified that, up to that moment, it had not been contacted by any public authority concerning the Operation.

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

On February 25, 2016, the Federal Police came to Gerdau s premises to execute court ordered searches and seizures, taking documents and data for examination. The Federal Police also interviewed certain individuals associated with Gerdau, including its Chief Executive Officer and another current Board member. On that same date, filing a press release with SEC and CVM, the Company informed Bovespa and the New York Stock Exchange (NYSE).

The Internal Investigation is ongoing, and the Company is cooperating with the Federal Police.

Table of Contents

As of the date of the approval of these financial statements, the Company believes it is not possible to predict either the duration or the outcome of the Operation by the Federal Police or of the Internal Investigation. In addition, the Company believes that there currently is insufficient information to determine any reserve for losses or to disclose any contingency.

****