



**GERDAU**  
Shape the future

# GERDAU INTEGRATED REPORT 2019

**SUSTAINABILITY**

**SAFETY**

**INNOVATION**

HEALTH

ETHICS

DIVERSITY





The new Guaíba Bridge,  
in Porto Alegre (RS), used  
Gerdau steel

# NAVIGATION MENU

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## MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The future was an important topic for Gerdau in 2019. It was the second year of implementation and consolidation of our renovated corporate governance and with new independent members, who shaped a new structure for the Board of Directors. The Board focused on long-term strategy and definitions, among them an important decision made in early 2020, which crowned a work developed throughout 2019: the incorporation of ESG (Environmental, Social and Governance) criteria, to Gerdau's governance, to have the best sustainability practices guiding the company's strategic decisions.

We reaped good fruit. We strengthened our capacity to promote and support the continuous evolution of the company, while advancing decisively in the design of long-term strategic scenarios and directions, by taking forward the definition of what we call the Future Gerdau. As a re-

sult of our efforts, in 2019 we reduced our financial leverage and had a strong generation of free cash flow, which also contributed to the preparation for a new cycle. As we see it, the future demands a Gerdau that differs from the traditional model of a simple producer of steel. We should become increasingly present in the Americas market as providers of services and products with high value added.

For this transformation, we will follow the trail of innovation in the steel value chain. Gerdau had great achievements and results in 2019, among the best in the second decade of the 21st century, but the company of tomorrow will be even better. We also evolved on important issues, such as our diversity and inclusion programs, and maintained high levels of safety in the workplace by recording the best result in Gerdau's history in the Severity Rate — a measure of the level of risk of workplace

accidents. That's how we materialize our purpose — "Empower people who build the future." All these initiatives are essential for us to remain strong players in a dynamic market, which will continue to be very competitive.

Our CEO and all company employees — whom I congratulate for the excellent work done in 2019 — will continue to strive to make Gerdau one of the best positioned organizations in the global steel industry. And they are not alone on this journey. The members of the Board of Directors and the Audit Committee will continue to offer all the necessary support to materialize this promising future with many achievements.



CLAUDIO JOHANNPETER

Chairman of Gerdau's Board of Directors

\*In April 2020, Guilherme Chagas Gerdau Johannpeter assumed as Chairman of Gerdau's Board of Directors. Claudio Johannpeter became Vice Chair of the Board.

## MESSAGE FROM THE CEO

GRI 102-14

The year 2019 was special for us. We made progress in consolidating the profound cultural transformation that is turning Gerdau into a more agile, transparent, diverse, and inclusive organization, and we disclosed ten principles that represent the pillars of our purpose to empower people who build the future. We, together with our employees, also advanced in a more thorough look at this purpose. We took great steps in promoting diversity and inclusion (D&I) by incorporating the topics of race and ethnicity, people with disabilities (PwD) and the LGBTI+ community in our actions, alongside the gender initiatives already in place. And we maintained high levels of safety, ending the year with the lowest severity rate in the workplace ever achieved by the company, which means that it was the year with the smallest number of serious injuries in the entire

history of Gerdau. We are on the right path to eliminate accidents in the workplace, a non-negotiable value for all of us.

Sustainability was another topic that was on the agenda during the year and that is one of the foundations for our future. It means planning for the next 100 years of Gerdau and achieving the company's purpose. A Sustainability Policy — drafted in 2019 and approved in early 2020 by the Board of Directors — now guides our strategic decisions, taking into account environmental, social and governance (ESG) issues.

Also on this subject, we joined the United Nations Global Compact and expanded our participation in national and international forums and pacts dedicated to discussing and promoting the role of companies as agents of social transformation. In the same vein, in 2019 we set off on our

certification journey as Company B, a recognition of global reach assigned by the non-profit organization B Lab to companies that seek, through their activity, to achieve economic and financial results while generating positive impact on society.

We began a long-term work to define the company's strategy for the coming years, which we call *Futuro Gerdau* (Gerdau Future). As a Strategic Direction, Gerdau will strengthen its position in the steel value chain in the Americas, with a strong emphasis on increasing value for stakeholders, through investments in the competitiveness of its current assets, mergers and acquisitions.

We established the guidelines for the Gerdau Innovation and Disruption Model, based on the decision to invest the necessary resources so that, in the next 10

**“We are an increasingly agile, transparent, diverse and inclusive Gerdau.”**



years, 20% of our revenues and US\$ 500 million in EBITDA are obtained from new businesses, in addition to production and marketing of long, flat and special steels.

The long-term vision outlined is a response to the recovery in demand for steel perceived in the largest markets in the Americas: Brazil and the United States, which show growth potential and additional gains in the steel industry.

New materials associated with steel, such as graphene; the reinvention of mobility and the expansion of productivity in civil construction are areas in which significant opportunities are opened. We are prepared to meet these challenges in an innovative and increasingly sustainable manner.

In 2019, we had the second best free cash flow in the historical series, reaching R\$ 4.4 billion in the fourth quarter. We also achieved a net debt-to-EBITDA ratio of 1.67x, the lowest value since 2011. These are results that reflect the company's efforts to reduce its financial leverage and, thus, move more firmly towards a more innovative future.

So many achievements would not be possible without the talent and effort of a fantastic team of employees, all protagonists in the construction of this Gerdau Future. I thank everyone immensely, as well as our customers, shareholders, communities and suppliers, who are also a part of this effort and builders of our tomorrow.



GUSTAVO WERNECK  
Gerdau's Chief  
Executive Officer

**“Gerdau Future is the name we give to our strategy for the years ahead, in which we will strengthen our position in the steel value chain in the Americas.”**



# ABOUT THE REPORT

THE REPORT

MATERIALITY MATRIX

Gerdau Mill  
Ouro Branco, MG



## THE REPORT

Gerda S.A. presents, in this Integrated Report, the financial performance for the year from January 1 to December 31, 2019 and the efforts made by management and all employees to move forward in the process of transforming the company, to add sustainability and innovation aspects into the business strategy. This year, Gerda advanced in its cultural transformation by launching a set of 10 principles that form the pillars that support the business purpose adopted in the previous year: Empower people who build the future. [GRI 102-1, 102-50](#)

The Report, which is annual, highlights in this edition the actions taken in 2019 to promote diversity at Gerda, as well as the rewards of the intense digital transformation effort in all company's operations. Initiatives relating to environmental management, workplace safety, social responsibility, and people management are also reported. [GRI 102-52](#)

The document was prepared based on the principles of the International Integrated Reporting Council <IIRC> for the fourth consecutive year and, for the first time,

became part of the GRI Standards disclosure items — Core option. For these items, we included the 2018 results, for comparison purposes. This report was not submitted to external assurance. [GRI 102-49, 102-54, 102-56](#)

The GRI criteria are one of the main global standards for this type of reporting and the model emphasizes the balance between the economic, environmental, and social dimensions. It is an appropriate format, in line with the transparent way in which Gerda develops its activities and informs its

stakeholders: employees, customers, shareholders, suppliers, government, and communities. In order to define the most relevant material topics in its communication with stakeholders and society, in 2019 the company conducted a materiality process. [GRI 102-40](#)

Gerda Office  
São Paulo (SP)





## MATERIALITY MATRIX

The material topics that make up an organization's Materiality Matrix, according to GRI Standards (Global Reporting Initiative) criteria, are those topics that reflect significant impacts, either environmental or social and economic, on its activities, products, services and relationships or have a relevant influence on the assessments and decisions of its stakeholders.

In 2019, Gerdau conducted a materiality process — the first in its history —, through which it defined the most relevant material topics to drive the company's strategy and management and guide its communication with stakeholders and society.

### Materiality

GRI 102-43

The materiality preparation process met GRI's requirements and involved the following steps:

- ✓ Planning
- ✓ Analysis of external and internal documents
- ✓ Media search
- ✓ Benchmark in the sector
- ✓ Interviews with leaders
- ✓ Online survey with stakeholders
- ✓ Validation of material topics with Gerdau's management

Gerdau Office  
São Paulo (SP)





Material topics and SDGs

GRI 102-44, 102-46, 102-47

Gerdau’s ten material topics are related to 11 of the United Nations (UN) Sustainable Development Goals (SDGs) — a global development agenda with 17 points, launched in 2015 during the UN Sustainable Development Summit.

Material topics	SDG
✓ Diversity and inclusion	5, 8, 10, 16
✓ Management of co-products	11, 12
✓ Recycling of scrap	11, 12
✓ Management of water and wastewater	6
✓ Management of energy	7
✓ Mitigation and adaptation to climate change	11, 13
✓ Innovation in processes and products	9, 11
✓ Occupational health and safety	8
✓ Ethics and corporate governance	16
✓ Stakeholder relations	11, 12, 17



SURVEY

The survey was proposed, in Portuguese and English, for audiences in Brazil — industry associations, environmental agencies, banks, press, investors and shareholders —, and global audiences for investors and shareholders, trade associations, customers, and consulting firms. These stakeholders were defined based on a mapping that considered the categories that impact and/or are impacted by our operations. [GRI 102-42, 102-43](#)

56 ANSWERS

The questionnaire received 56 complete answers. In Brazil, the survey was responded by audiences in eight Brazilian states: Ceará, Federal District, Minas Gerais, Pernambuco, Rio de Janeiro, Rio Grande do Sul, Santa Catarina, and São Paulo. The survey in English included audiences in five countries: United States, Belgium, Denmark, Switzerland, and the Netherlands.

10 TOPICS


At the end of the process, ten material topics were defined as priority for Gerdau — that is, of high impact and high influence for stakeholders and that will be the most relevant in conducting the strategy and prioritizing programs and initiatives. They must be reviewed periodically, in order to take into account the evolution of the context and socioeconomic and environmental conditions in Brazil and in the countries where Gerdau operates, as well as changes and possible restructuring in the company’s operations.

Learn more about the SDGs: <https://nacoesunidas.org/pos2015/>



## Covid-19

### Gerdaу's 2019 Integrated Report was prepared based on interviews and analyses conducted before the Covid-19 pandemic.

Therefore, the impacts of the pandemic on its business and on the steel industry will be discussed later in the 2020 Integrated Report. We point out that the company is following all the Covid-19 prevention guidelines issued by the relevant health agencies in the countries where the company operates in order to preserve the health and safety of employees and their families, contractors, suppliers, customers and communities and maintain its operations and jobs. In addition, Gerdaу, reinforcing its commitment to be part of the solutions to the challenges of the municipalities in which it operates, has invested, to date, R\$ 20 million in initiatives to support the fight against the coronavirus. For more information on the subject and the impacts of Covid-19 on our business, visit <https://www2.gerdau.com.br/informacoes-sobre-o-covid-19>. 



Covid-19 Treatment Center, in São Paulo (SP), built with resources from Gerdaу and partner companies



José Paulo da Silva, employee  
of the Açonorte mill,  
in Pernambuco

# WHO WE ARE

*GERDAU PROFILE*

*GERDAU BUSINESS MODEL*

*CULTURAL TRANSFORMATION*

*CORPORATE GOVERNANCE*

*STRATEGY FOR THE FUTURE*

*AWARDS AND RECOGNITION*



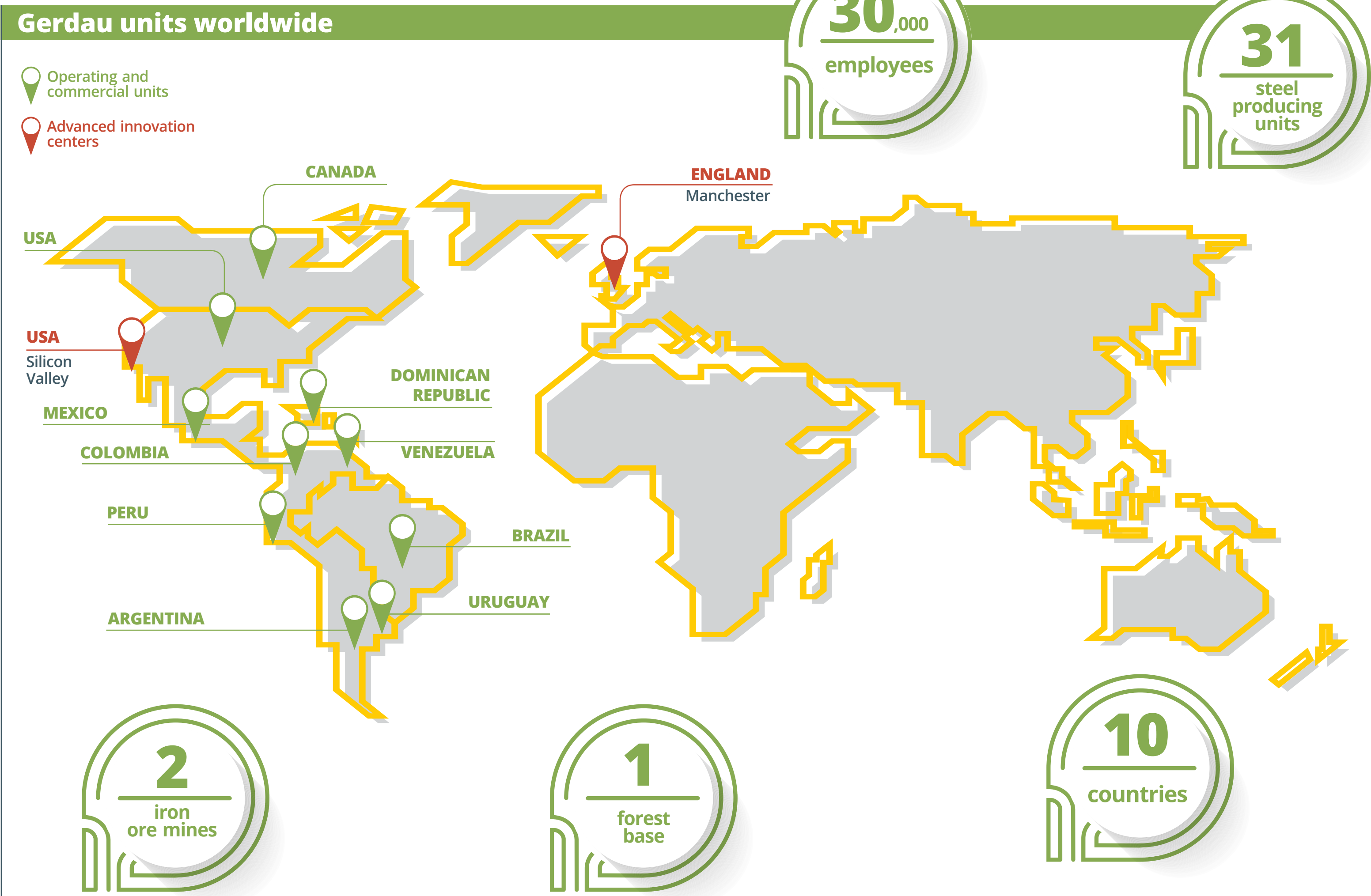
# GERDAU PROFILE

Gerdaud is the largest Brazilian steel producer and one of the main suppliers of long steel in the Americas and special steel in the world. In Brazil, the company also produces flat steel, in addition to iron ore for own consumption. [GRI 102-4, 102-7](#)

The company operates 31 steel producing units, 75 ‘Comercial Gerdaud’ stores, 2 iron ore mines, and an eucalyptus forest base of more than 250,000 hectares. It is also considered the largest recycler of ferrous scrap in Latin America, transforming 11 million tons of scrap into steel annually in its operations in Brazil and worldwide. [GRI 102-4, 102-7](#)

Gerdaud has industrial operations in 10 countries and nearly 30,000 direct and indirect employees worldwide. Its shares are traded on the São Paulo, New York and Madrid Stock Exchanges, and its net revenue in 2019 was approximately R\$ 40 billion. [GRI 102-4, 102-7](#)

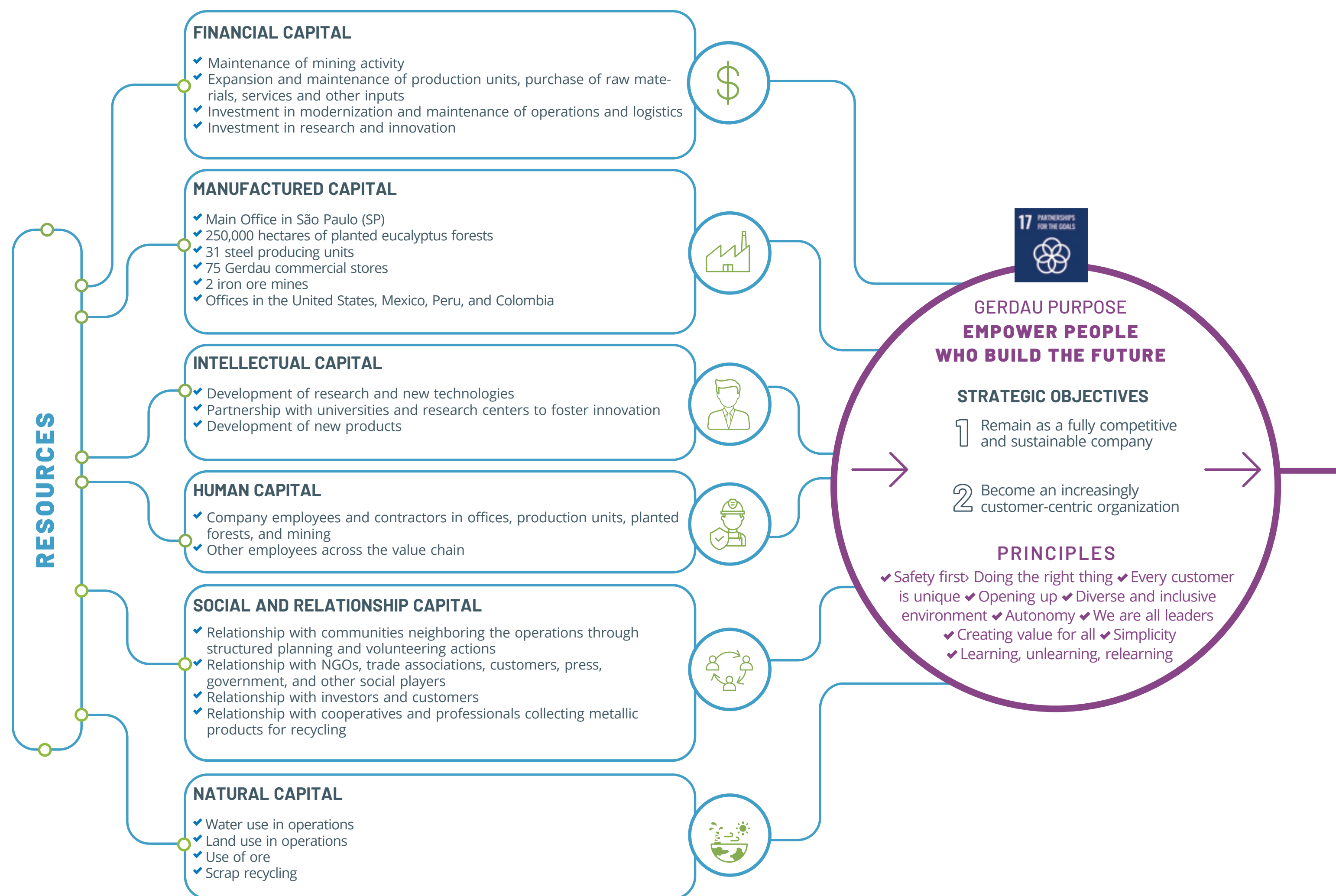
In 2019, the company made environmental investments of R\$ 241 million and social investments of R\$ 18 million. Gerdaud supported 400 social projects in the communities where it operates and totaled 6,400 volunteer employees in the same year.



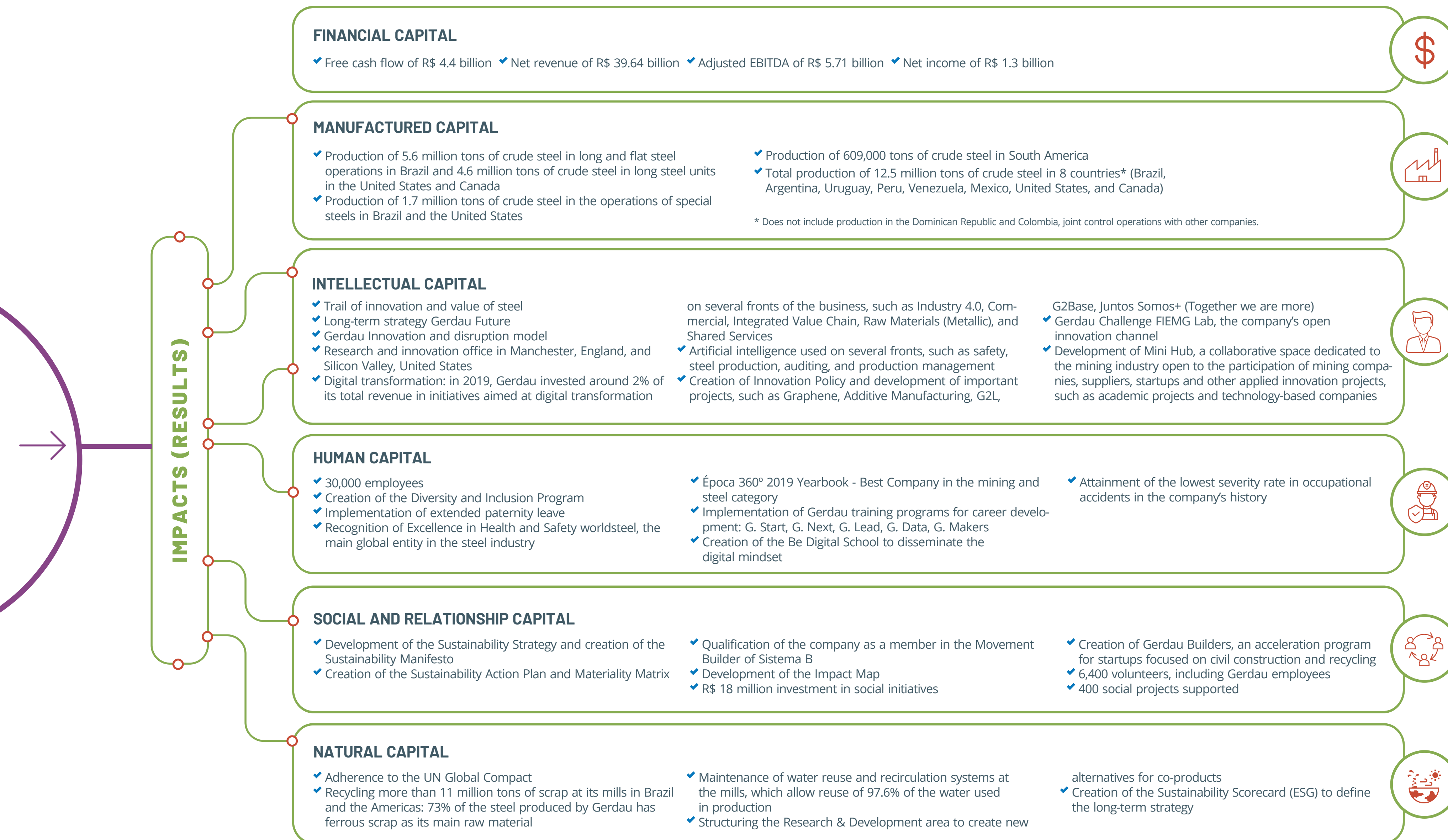


## GERDAU BUSINESS MODEL

In order to demonstrate the company's value creation over time, we follow the framework of the International Integrated Reporting Council (IIRC), which presents the resources (inflows) used by Gerdau in its business and the impacts (outflows) caused by the company on society. According to the IIRC, the capitals are factors of value that increase, decrease or are transformed through the organization's activities and products. This structure is classified into financial, manufactured, intellectual, human, social and relationship capital, and natural capital. Below, we show how these capitals were transformed by Gerdau in its business processes and the impacts and results delivered to society throughout 2019.









## CULTURAL TRANSFORMATION

In 2019, Gerdau made a great effort to consolidate, at all levels of the organization, the purpose of the company, launched globally in September 2018, and to disseminate it to multiple stakeholders.

The discussion and definition of the purpose

### Empower people who build the future

marked an advanced stage of the cultural transformation process carried out by the organization from 2014 to date, having as its starting point an essential question: "What company do we want to be in the future?"

Based on the concepts of openness and collaboration, Gerdau set out on a profound journey to revise its organizational structures and culture, in order to become a more agile and transparent and less hierarchical company, and permeated by a more fluid communication. This journey was intensified in 2019 through actions to

discuss and empower customers, suppliers, shareholders, employees, and communities, the targets of the purpose announced in 2018, and to reinforce their understanding within the organization.

### Ten principles for driving change

GRI 102-16

Cultural transformation advanced in 2019 after the presentation of 10 principles that, jointly, take the place of mission and values statements and form the pillars of the new purpose. The principles expand and develop the concepts that the organization had already had in place since the beginning of the transformation process.



#### Safety first

No result is more important than people's lives.



#### Do the right thing

Ethics and respect are essential in everything we do.



#### Every customer is unique

We work to make our client's business thrive, driving joint success.



#### Openness

We don't know everything and we believe that a team always achieves better results than individuals.



#### Diverse and inclusive environment

We create a diverse and inclusive environment where everyone is heard, respected and has opportunities.



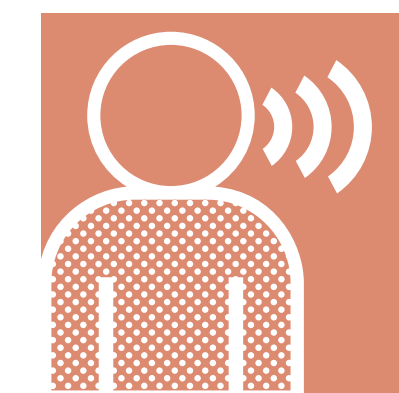
#### Autonomy

We take responsibility in making the best decisions for the business.



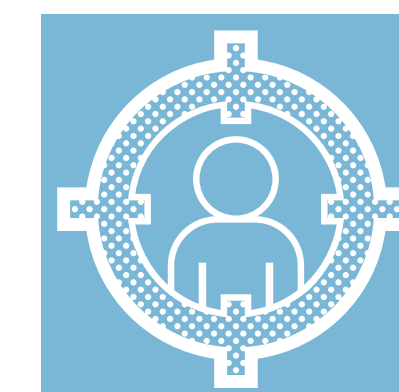
#### We are all leaders

We are engaged and committed to our development and that of the people around us.



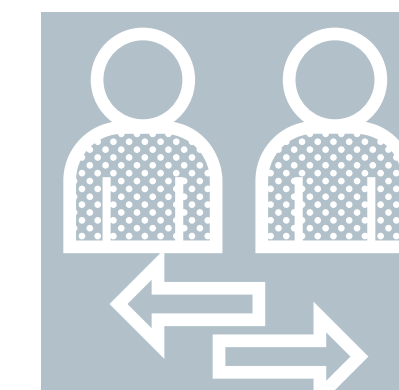
#### Creating value for all

We fulfill our purpose by sustainably creating value for all our audiences.



#### Simplicity

We focus on what adds value. As a result, we are more agile and gain productivity.



#### Learn, unlearn, relearn

We believe that in order to continue evolving, it is essential to adapt to new scenarios, innovating and finding better ways of working.



## Thermometer of the cultural evolution

The result of all this cultural transformation work can be measured in the Opinion Survey carried out with employees in 2019:

- ✓ **20,611 people** from all Gerdau units worldwide took part in the survey
- ✓ **74%** was the general favorability index

Among the questions with the most favorable answers:

- ✓ **91%** of respondents stated that “Workplace safety is the first of all decisions made”
- ✓ **88%** said that “Employees in my area are treated with respect”
- ✓ **88%** believe that “In our company, we do everything to meet customers’ needs and exceed their expectations”

Among the questions that detected more opportunities for improvement:

- ✓ **54%** consider that “The benefits package that my company offers meets my needs”
- ✓ **53%** think “Our company simplifies processes and structures if necessary”
- ✓ **47%** believe that “Our company focuses on few and relevant goals”

## One transformation leads to another

GRI 103-1, 103-2, 103-3 Own topic: Innovation in processes and products,  
GER -1 Own indicator: Financial return on digital projects

Cultural transformation was the fertile soil that supported another ongoing turning point within the organization: digital transformation. This report will refer, in the next sections, to digitization of internal processes and to new platforms for relationship with customers and other stakeholders, already in operation or under development.

These tools are the result of digital transformation initiatives implemented in the last four years and of the adoption of an agile mindset, and would not have been possible without the changes that occurred in parallel with the organization’s culture. This transformation focuses mainly on:

- ✓ Providing our customers with the **best experience**
- ✓ Seeking productivity by expanding our **Industry 4.0** actions
- ✓ Having a **customer-centric** integrated supply chain
- ✓ **Optimizing** raw materials

In this process, the attribute of openness to the new — represented by the digital revolution — and the practice of active listening were particularly important, paving the way to a new, more collaborative and less hierarchical mindset in an industry such as steel-making, which is among the most conservative in the manufacturing sector.

Two major objectives pose a challenge for Gerdau in the near future: to remain a fully competitive and sustainable company in global manufacturing, and to become an increasingly customer-centric organization. Digitization of tools and processes is a competitive advantage, with potential to help achieve both objectives.



## Gerdau's digital ambition is to transform the way we do business by digitally integrating and optimizing our operations to ensure focus on customers

In 2019, Gerdau invested close to 2% of its total revenue in innovation and digital initiatives aimed at several business fronts, such as Customer Journey, Future Value Chain, Industry 4.0, Next Generation Sales, and Optimization of Raw Materials, in order to meet the demand of its customers by offering innovative products and solutions. The digitalization journey follows the evolution of the company's cultural trans-

formation, which resulted in the development of new behaviors, new ways of working, without silos, and of the agile mindset of its employees, and prioritized the use of technology and data tools.

The company believes that people are the vector of this transformation and that technology is an enabler for these changes. In 2019, the concept of Digital Factory was adopted, which is a digital unit that incubates and accelerates the development of disruptive and relevant initiatives to shape the company's future. The model is already a reality in Gerdau's operations in Brazil and the United States.

The transformation process also involved the development of an innovation ecosystem, which allows interaction with other players who have complementary skills. In 2019, the connection with startups, for example, was accelerated, through the company's office in Silicon Valley (USA), the creation of the venture capital fund, Paris Ventures, which invests in startups, and the support to projects with positive impacts.

Digital channels, such as eGerdau, Portal C&D and Chatbot João, also had significant growth in number of accesses and transactions. Almost 50% of Gerdau's customers already use digital channels, up 15% over 2018.



Meeting of Leaders 2019



## Some of the digital transformation initiatives and achievements in 2019:

### ✓ Artificial intelligence in workplace safety

An innovative Safety Analytics project on a global scale was consolidated in 2019. Artificial Intelligence (AI) models are used to predict the risks of occupational accidents based on historical data — big data accumulated by the company — allowing action to be taken to prevent risks from turning into real accidents. Today, almost all Gerdau mills in Brazil work with the Safety Analytics tool and the project is being taken to operations in Mexico and the United States.

### ✓ Artificial intelligence in steel production

A similar development model — pilot in 2018, disseminated in 2019 — was applied to another successful project: Melt-down, an Artificial Intelligence model to optimize energy consumption in steel-making furnaces of semi-integrated mills. Data collected in this modeling are processed in an intelligent monitoring center

in Belo Horizonte (MG) that sends to operators at the mills the information necessary to improve the energy efficiency of the furnaces, reducing energy consumption and the costs of steel making

### ✓ Artificial intelligence in auditing

A digital auditing project developed in 2018 is changing the way Gerdau's auditors work and the professional profile of the job. Auditors develop intelligent platforms to work with data in real time, with digital technology enabling a deeper transformation of their activity — some auditors are already programming in the Python language and are able to directly use Gerdau's data lake to mine the data they need for their work.

### ✓ Artificial intelligence in production management

Smart Decision is an artificial intelligence model developed internally that helps decision makers to balance three basic variables in Gerdau's production and marketing chain: customer orders, products in stock, and the production pace of the mills. Monitoring of these numbers, previously done manually, now benefits from an intelligent digital platform that facili-

tates the continuous adjustment of these variables.

**In creating Smart Decision, we implemented the work in squads — a multi-disciplinary team composed of people from the digital, business, and IT areas. Squads are one of the new forms of work that Gerdau is beginning to implement, anticipating changes toward a less hierarchical and more agile structure, with less organizational silos and more collaborative work. At the end of the year, eight squads were active in Brazil and two in the United States, in projects in different areas.**



Gerdau Mill  
Ouro Branco (MG)



## CORPORATE GOVERNANCE

GRI 102-18

The evolution of Gerdau's governance has led to changes in the composition of the Board of Directors, responsible for defining the organization's long-term strategy and overseeing its execution.

Of the nine members of the Board, four are members of the controlling family, one is the CEO of the company, and four are external and independent, a number above the minimum required, one of whom is a woman.

The Board of Directors relies on support and advisory committees, whose roles are to support the company's processes and operations, making recommendations on topics within their respective competencies. In 2019, the Strategy Committee, linked to the Board of Directors, was renamed Strategy and Sustainability Committee, intended to support the Board of Directors in matters related to industry trends that could impact business in the short, medium and long term, as well as to environmental, social and gover-

nance (ESG) factors, including, among others, climate change. Also as part of the governance structure, the role of the Audit Committee is to supervise the acts of the administration and the financial statements. The Executive Board and business operations leaders are in charge of the organization's corporate management.

Members of the Board of Directors are elected by the Ordinary General Meeting. The committees are composed of at least one director, and the other members can be collaborators or external advisors depending on the need of the Board. The independent Board Members were appointed by the controlling shareholders taking into account the independence criteria described in the manuals on best

governance practices, their professional expertise, and their adherence to Gerdau's principles, including diversity of experience and gender. Criteria used to appoint and select the members of the highest governance body include: availability of time to perform their duties, independence and diversity of knowledge, experience and gender.

GRI 102-24

See here the members of the Board of Directors, the Audit Committee and the Executive Board <https://ri.gerdau.com/governanca-corporativa/administracao>



### Governance in 2019

The Board convened throughout the year and focused, among other issues, on the approval of the ESG action plan (concerning environmental, social and governance issues), on the review and updating of corporate policies on Securities Trading, Related Party Transactions and Disclosure of Information, and on monitoring strategic issues and the most relevant risks to the business. The internal regulations of the Board of Directors and of its support committees, the sustainability policy, the materiality matrix and the ESG scorecard were approved at the beginning of 2020.



Gerdau's Board of Directors:

1. André Bier Gerdau Johannpeter 2. Márcio Fróes Torres 3. Richard Chagas Gerdau Johannpeter 4. Guilherme Chagas Gerdau Johannpeter 5. Cláudio Johannpeter 6. Fernando Fontes Lunes 7. Gustavo Werneck da Cunha 8. Claudia Sender Ramirez 9. Aod Cunha de Moraes Junior

### COMMITTEES

The Board of Directors has four support committees:

- 1 Remuneration Committee
- 2 Corporate Governance Committee
- 3 Finance Committee
- 4 Strategy and Sustainability Committee



## Remuneration of the administration

Remuneration of Gerdau's administration is in line with market practices, supported by surveys conducted by several global remuneration consultants. In relative terms, it represents approximately 0.5% of EBITDA, a percentage that is below the reference represented by the most traded companies on B3 (according to the corporate governance yearbook of magazine Revista Capital Aberto).

In 2019, the Board of Directors, supported by the Remuneration Committee, analyzed a new performance evaluation and short-term incentive program. The new model will come into effect in 2020 and will follow the course of Gerdau's cultural transformation, based on the principles of collaboration, simplicity, and value creation.

As of 2020, the upper threshold on variable pay has been reduced from 20% to 15% of Gerdau's overall net income. This change is guid-

ed by the company's history and market references, and aims to align variable pay with the interests of shareholders.

## A visit to the capital markets

Gerdau follows the best international corporate governance standards, guided by strict ethical principles. The company has been in the capital market for more than seven decades and its shares are listed on the São Paulo, New York, and Madrid stock exchanges. The company follows the requirements of the Sarbanes-Oxley Act, which establishes best governance practices and strict control over internal processes for companies present in the U.S. market.

In the Brazilian market, it is part of B3 Corporate Governance Level 1 (Brasil Bolsa Balcão). It adopts practices beyond legal requirements, such as granting 100% tag along for all its shares and payment of a minimum dividend of 30% of adjusted net income.

## Ethics, compliance and trust

GRI 102-17, 103-1, 103-2, 103-3: 205 Anti-corruption

Gerdau's compliance program reinforces the company's commitment to its Code of Ethics and compliance with legislation and internal guidelines, and detects and mitigates internal and external risks that could impact the business.


The Code of Ethics, policies and guidelines formalize Gerdau's obligations to comply with laws, execute routines, and follow solid governance and levels of authority. In addition to the Compliance Policy, the Guidelines for Relations with Public Agents, Donations, Contracts, Gifts, and Disciplinary Sanctions can be highlighted.

In relationship with third parties, with an emphasis on transparency and fair competition, the company has the Code of Ethics for third parties, available on the Internet, in addition to contracts with compliance clauses and terms of commitment with adherence to the commitment



APIMEC Meeting 2019



to anti-corruption practices. Compliance-related files are also available on the Internet: <https://www2.gerdau.com.br/sobre-nos/canal-da-etica>. 

The company does not condone any unethical practices and/or disrespect for the law in the countries where it operates. Ethical non-compliance of any nature is considered a serious infraction, which may result in disciplinary sanctions, including termination of contract and liability of employees and third parties.

The company also has an anonymous and confidential communication channel in place for questions and suspected violations of Gerdau's Code of Ethics or legislation to be reported and addressed.

Inquiries about breaches of the Code of Ethics made to Internal Audit by the Audit Committee, the External Audit, the Risk Committee and the Board of Directors are answered and shared in detail, always maintaining the commitment to confidentiality and secrecy. All reports received are investigated, and

the results are reported to the appropriate levels, regardless of their impact and or materiality. In addition, 100% of these cases are reviewed by External Audit and the Internal Controls area, which assesses whether or not there are relevant topics.

Assessment of the risk of corruption follows the structured lines of defense: management of controls by the area, monitoring of indicators, reviews by the Internal Controls area, reviews by Compliance and Internal Audit assessments. The Compliance area has established, in its integrity program, the pillars to combat corruption: tone at the top; policies and guidelines; whistleblowing channel; dissemination of ethical culture; risk assessments; monitoring of records; reputational analysis, and due diligence. This area reports directly to the Board of Directors, demonstrating the company's commitment to ethics and compliance. Compliance issues, actions for improvement, policies, annual action plan, and perceptions about advances in practices within the company are reviewed at the meetings.

Gerdau provides training to all employees on the company's Code of Ethics every two years. Depending on their activities, employees are also trained on anti-corruption and competitive practices, via e-learning or in-person workshops. **GRI 102-17, 103-1, 103-2, 103-3: 205 Anticorrupción**



Gerdau Office  
São Paulo (SP)

**In 2019, all active employees (approximately 27,000) had been trained on compliance practices via e-learning. There were also in-person workshops and messages from the leaders for all operations on the topic of ethics. A total of 12,500 customers and suppliers, from all operations, were also communicated about Gerdau's anti-corruption practices.** **GRI 205-2**





Control room — Gerdau Mill — Ouro Branco (MG)

## How (not) to take risks

GRI 102-15

Gerdau regularly monitors operational and business risks that could impact its activities. Monitoring is performed by the control structure and by the Business Operations Committees and overseen by the Risk Committee.

Gerdau acts on business, compliance and operational, occupational safety, environmental, financial, tax, labor, image, and regulatory risks. Gerdau's Risk Management structure is decentralized. It leverages and strengthens the technical knowledge and profile of professionals in each of the Business Operations: Brazil, North America, South America, and Special Steel. To act on the relevant risks, the company establishes three lines of defense. The first line is the internal controls defined for the critical activities, procedures and guidelines, with clearly defined responsibilities, automated and manual controls, among others.

Management activities for the second line, including monitoring, assessment, process improvement and accountability. The third line involves Internal Audit activities, which regularly conducts independent evaluation of the processes and reports to the Audit Committee and the Board of Directors.

The company structured its committees in order to provide a protection network to monitor risks and the relevant processes. The Governance, Strategy and Sustainability, Remuneration, and Finance Committees were created to support the Board of Directors. And to support the executive level in dealing with risks, the company has the Risk, Disclosure, and Business Operations Committees.





## STRATEGY FOR THE FUTURE

In 2019, Gerdau worked to define the company's strategy for the next 10 years. Called *Futuro Gerdau* (Gerdau Future), the work considered not only the Brazilian market, but also important markets worldwide for the steel industry, such as China and the United States.

In discussing priorities and future investments for the period, the work took into account an assessment of the Gerdau's current assets, trends in the sectors where it operates, and visions of what Gerdau might look like in the future, based on today's roadmaps and on the long-term objectives of the company.

An important driver of this work is the perception that the ongoing changes in the global market are pointing in the right direction: that Gerdau is shifting from a commodity producing model to become an increasingly high value-added provider of services and products.

### Future with innovation

**GRI 103-1, 103-2, 103-3 Tópico próprio: Innovation in processes and products**

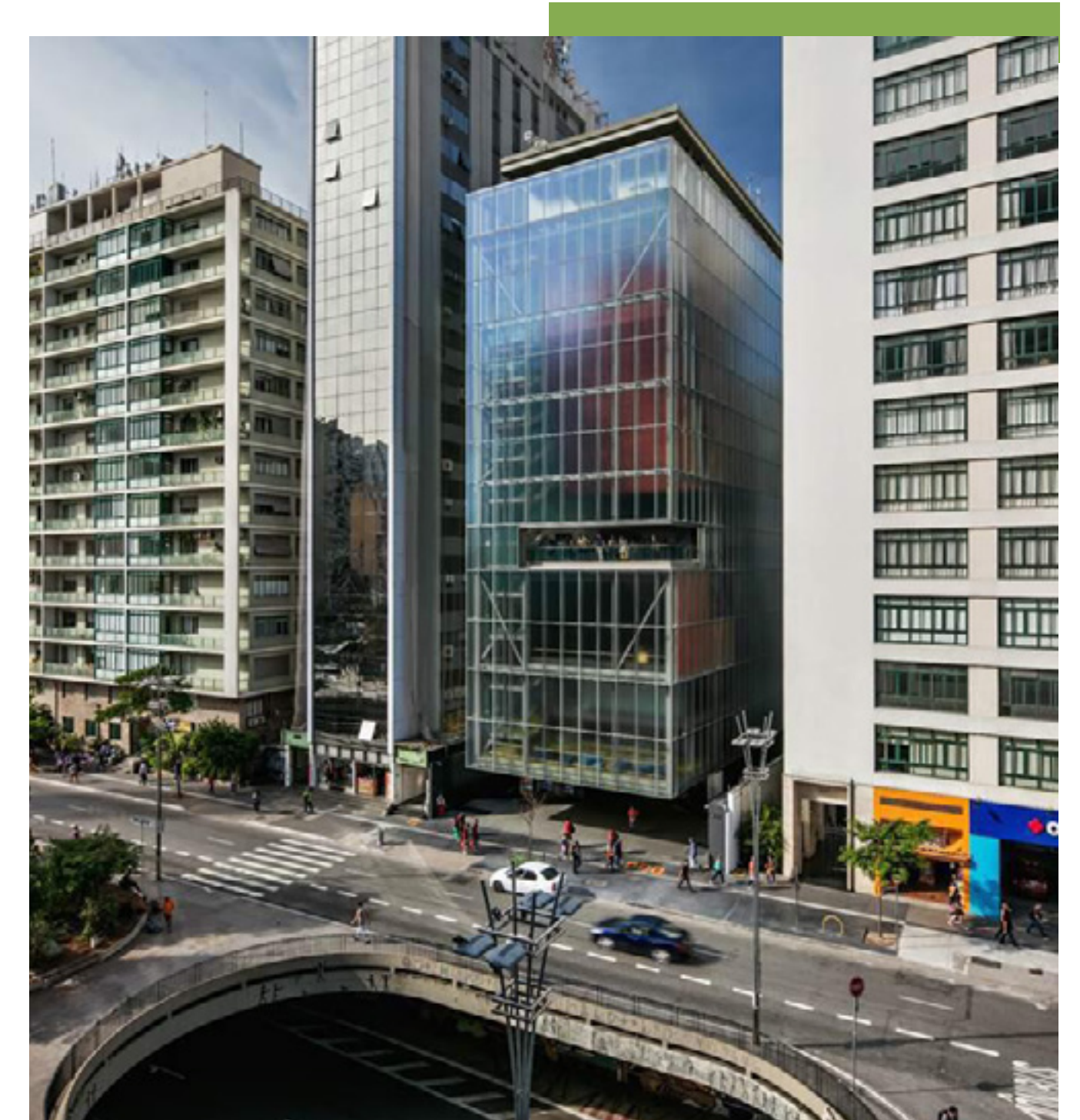
In an initial ten-year horizon of Gerdau Future, a 20% share of the company's revenue should come from new businesses and products focused on complementing the value proposition to our customers and on the existing opportunities in the chains in which we operate. The company is attentive to the trends of the sectors where it operates and to the consumption behavior of customers, and is constantly revising the organizational design in order to become an agile company, capable of exploring new business models to better serve customers. To achieve this in one decade, the path is disruptive innovation in the steel value chain.

Five lines will guide these investments in innovation, estimated at up to US\$ 1 billion in 10 years:

- ✓ New models of interaction with suppliers and customers, enabled by digital technologies
- ✓ new materials, including graphene
- ✓ future of construction
- ✓ future of the industry
- ✓ future of mobility

To shape this desired future, the company took its first steps in 2019, developing an Innovation Policy. At the same time, it adopted the strategic direction, in line with Gerdau Future, to focus its operation on and reinforce its position in the iron and steel value chain in the Americas, while investing in disruptive innovation and in the development of new businesses and products.

Innovation will be implemented through digital transformation, intrapreneurship, engagement with the ecosystem, investments, divestitures, and mergers and acquisitions.



Building of the Moreira Salles Institute, in São Paulo (SP), built using Gerdau steel



To manage its innovation initiatives, Gerdau has a specific area and a Digital Committee that operates in the approval and monitoring of digital transformation initiatives in the company. Management of digital transformation initiatives and new business models is monitored by metrics regularly tracked by the Digital Committee. These metrics evaluate the progress of the digital initiatives portfolio and their return (tangible and intangible), in order to contribute to a more objective and transparent analysis of the topic.

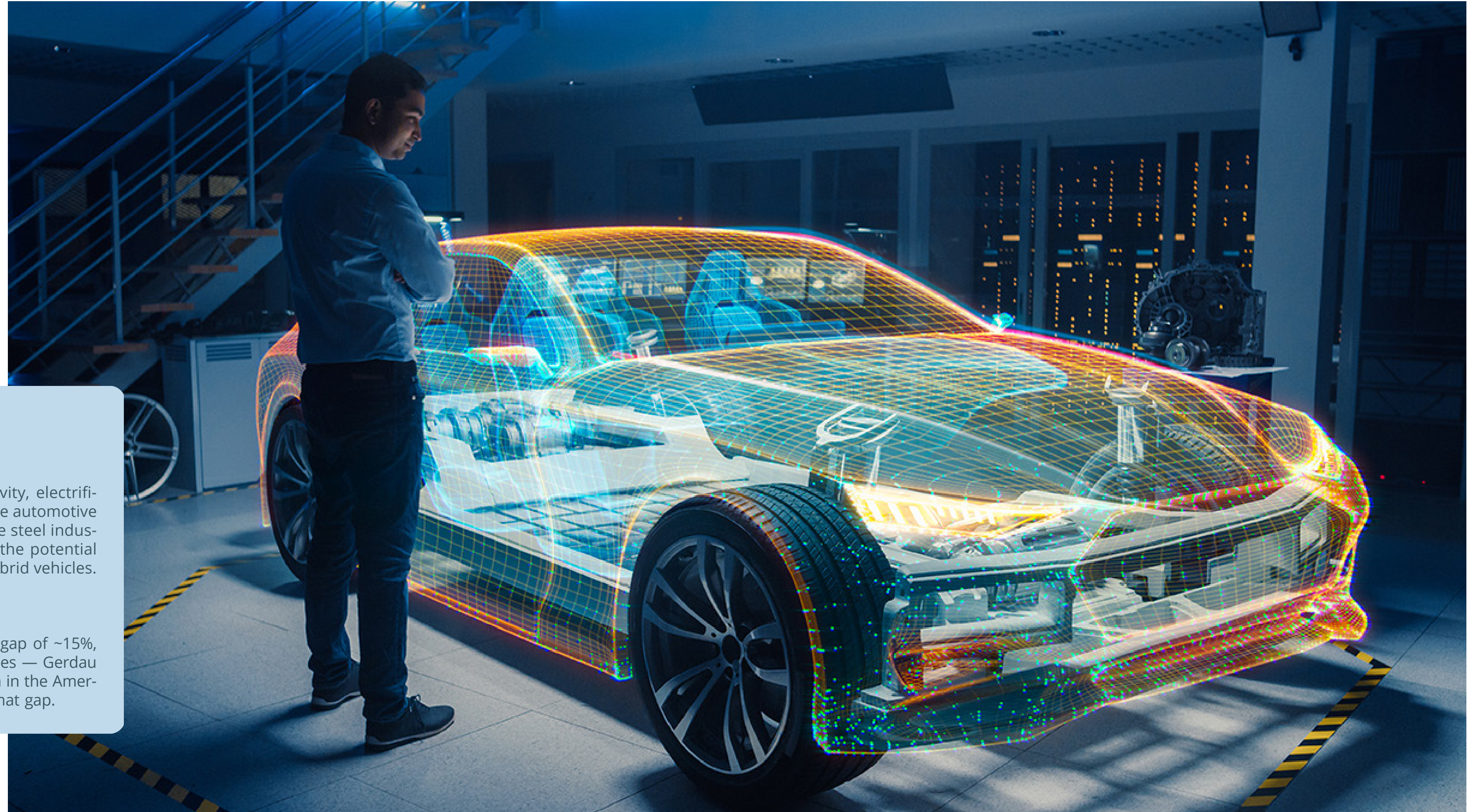
#### Gerdau's innovation theses

##### 1. Future of mobility

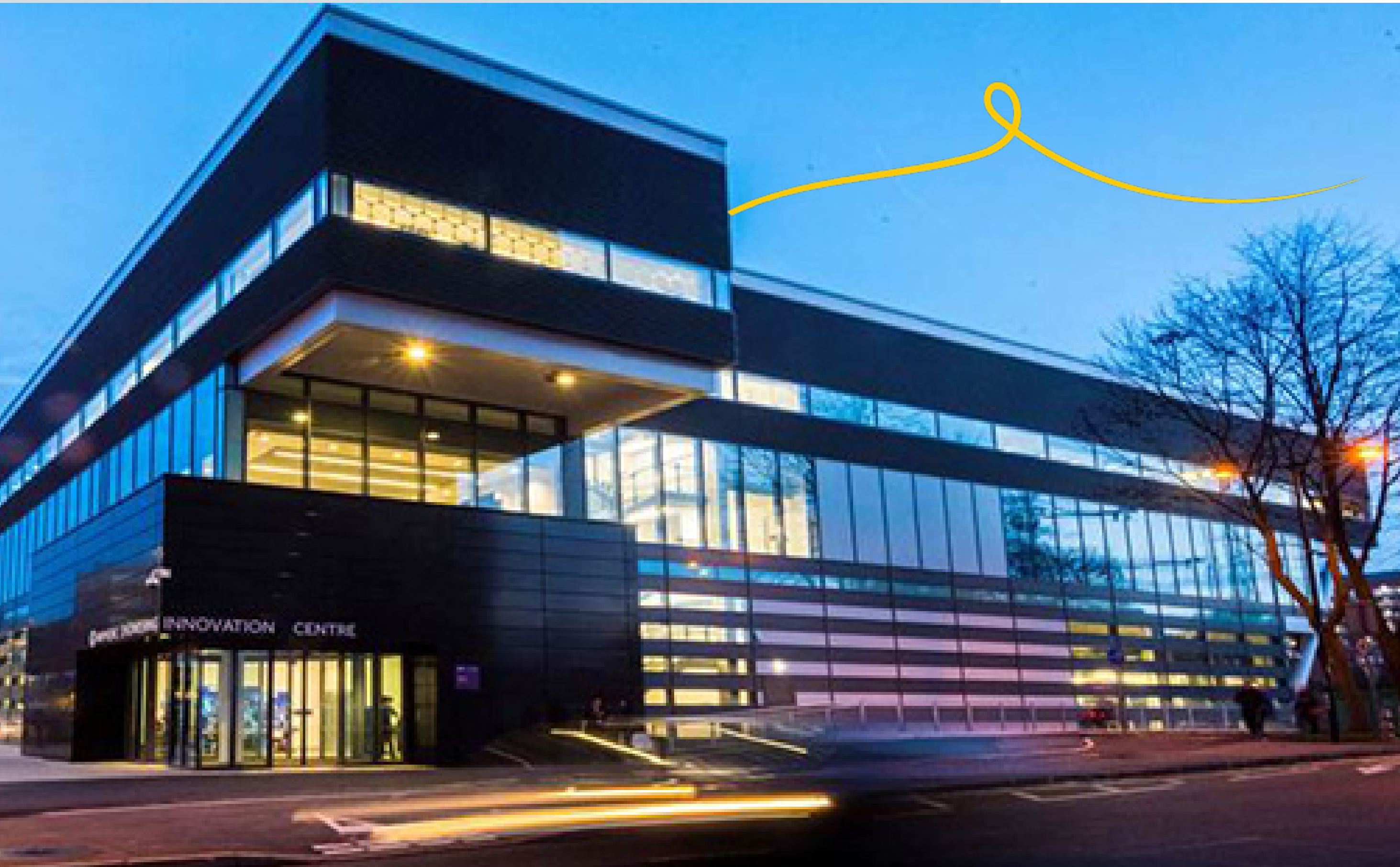
New mobility trends (autonomy, connectivity, electrification, and sharing) are expected to affect the automotive sector globally. However, their impact on the steel industry in the Americas will be limited and has the potential to increase demand for the production of hybrid vehicles.

##### 2. Future of construction

The construction sector has a productivity gap of ~15%, which will be eliminated with new technologies — Gerdau is a key player in the construction value chain in the Americas and will have an active role in bridging that gap.







Gerdau's Innovation Center — Manchester, UK

### Innovation beyond steel

In Gerdau's map of the future, it is important to become a player that goes beyond steel as a commodity and actively participates in the development and production of higher value-added products.

A promising front in this regard, which is being developed by Gerdau, is the production of innovative types of special steels for the automotive industry, in its transition toward using more sustainable sources of energy (see box on the next page to learn about Gerdau's other innovation initiatives).

Lighter and more resistant, these new special steels are designed to offset the weight of the batteries that will be used in future electric vehicles, whose production tends to grow, according to market estimates (*[more information in section Our business](#)*).

### Partners in the Valley

Since 2018, Gerdau has had an office in Silicon Valley, in California (USA), the global center for innovation in digital technologies. Based in San Francisco, the office houses Gerdau's own employees to seek high-impact innovations capable of improving the company's efficiency and bringing gains to its customers.

The office exchange experiences and enters into partnerships with start-ups based in the Valley. These are natural candidates for joint work with



startups whose portfolios add ideas and projects that have good potential for Gerdau and its customers, or which can contribute the company's culture of innovation. One of the results of this team effort is Paris Ventures.

Investments in startups

At the end of 2019, Gerdau created a fund, called Paris Ventures, to receive investments of up to US\$ 80 million to invest in promising startups. The fund will seek startups that develop solutions aligned with the company's business strategy.

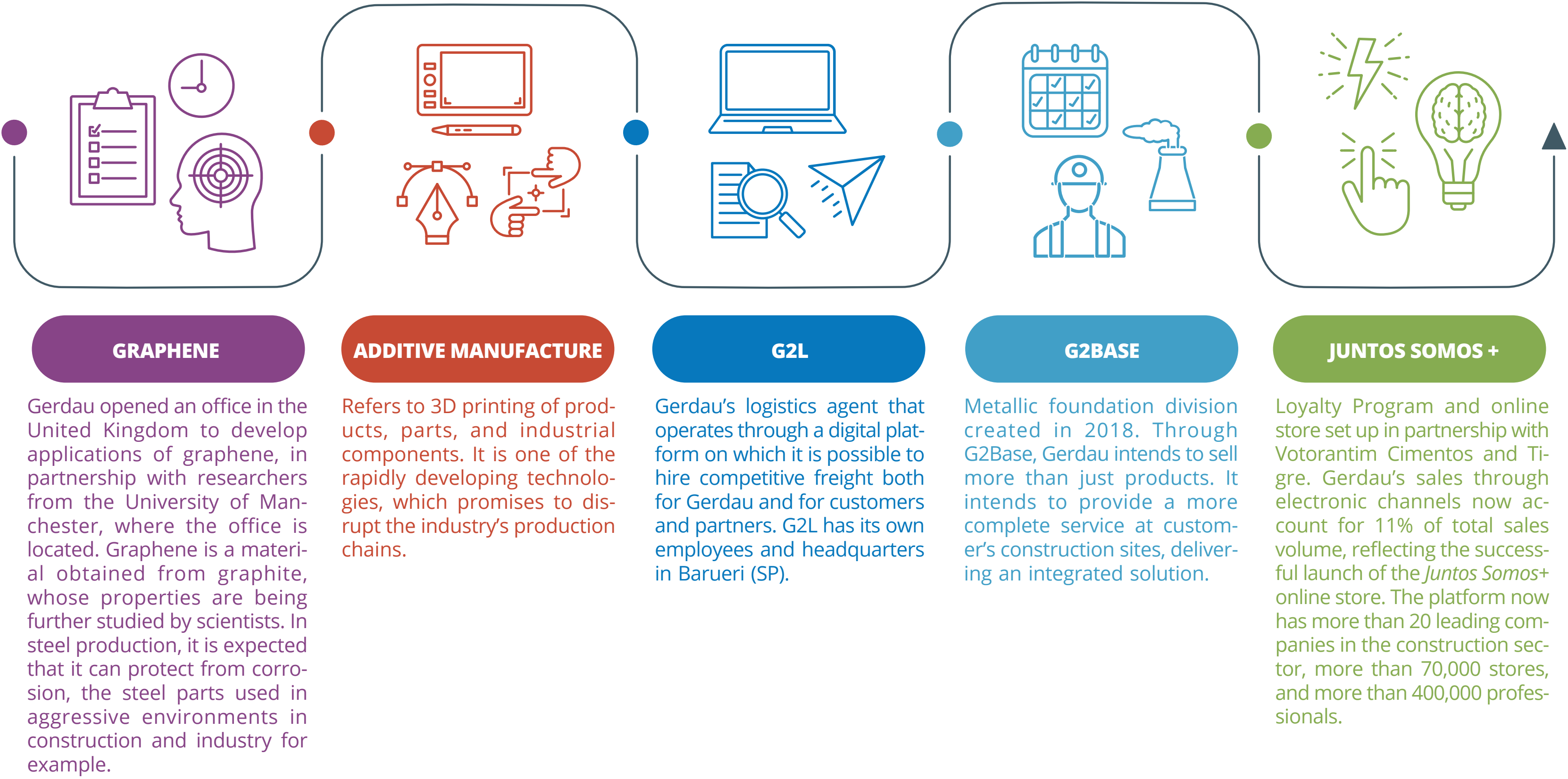
However, innovative ideas that contribute to making the operation digitally integrated or open interesting business prospects in the long term, even if not aligned with the core business, are also welcome.

The scope of innovation targeted by Gerdau in the coming decades is not limited to the applications of disruptive materials and technologies in steel production. New materials that can even replace steel in specific applications, as well as innovative products and services, may also integrate the company's new portfolio, complementing its traditional offerings.

THE MANY FACES OF INNOVATION

Some examples of innovative technologies and businesses developed by Gerdau

GRI 103-1, 103-2, 103-3 Own topic: Innovation in processes and products







GERDAU CHALLENGE

FIEMG LAB 2019

In 2019, Gerdau promoted the second round of the Gerdau Challenge FIEMG Lab, the company's open innovation channel. It is a competition between startups that offer solutions to challenges proposed by Gerdau, aimed at solving real problems in the company's operations. The selected startups have the opportunity to develop and test their projects in actual operating environments, with the support of specialists from Gerdau and FIEMG Lab. Two challenges were launched in 2019:

Overhead ladle hitch

- ✔ Improve the process of hoisting and transporting ladles with liquid metal
- ✔ Startups selected: InventVision, MeS, MVISIA, SVATECH

Connectivity in Brazilian fields

- ✔ Interconnect people, machines, and equipment in forestry operations.
- ✔ Startups selected: Agrus Data, Alllex0, Logmax, Prime Field



Gerdau Institutional Campaign 2019 — Confins Airport (MG)

NEW BRAND

POSITIONING

In order to communicate its new brand positioning, in August 2019, Gerdau launched an institutional campaign with the slogan *O futuro se molda* (Shape the Future), based on the brand repositioning defined in early 2019 and on the purpose of “Empowering people who build the future”. This campaign demonstrated the essence of the company, through messages that reveal its flexibility to adapt to the needs of customers and the business, partnerships to create lasting and true relationships, and a vision of the future to anticipate new trends and behaviors. All employees saw the campaign first hand through a video (<https://www.youtube.com/watch?v=9viUX-5lQQbA>) that positions people as protagonists, showing how steel is present in everyday life, in the city and in the countryside – in situations ranging from buildings, cars and bridges, to medical and leisure equipment, to agriculture and wind power. The campaign was communicated on Gerdau’s official digital channels, such as Facebook, LinkedIn, Instagram, Twitter, and YouTube, during GloboNews’ evening news (Jornal das 10), on panels at airports in the cities of Porto Alegre (RS) and Belo Horizonte (MG), and in business magazines and yearbooks.



## AWARDS AND RECOGNITION

Learn about some of the awards and recognition received by Gerdau in 2019.

### Brazil

#### ✓ Recognition for Excellence in Health and Safety by worldsteel

Awarded by worldsteel, the main international entity representing the steel sector, in recognition of the significant reduction in the severity rate in workplace accidents achieved by Gerdau.

#### ✓ Época 360° 2019 Yearbook — Best Company in the mining and steel category

Época magazine and Fundação Dom Cabral annually award the best companies in 27 sectors of the economy. In 2019, for the first time, Gerdau was the best in the category. The award takes into account the financial performance and corporate governance practices, sustainability, people management, innovation capacity, and

vision of the future.

#### ✓ Best Product of the Year Award — Top of Mind Construction Retail

For the 23rd consecutive time Gerdau was awarded in the Nail, Screen, Truss, Annealed Wire, and Rebar categories, voted by construction material store owners.

#### ✓ Marcas de Quem Decide Award by Jornal do Comércio – RS

In this award, Gerdau maintained its position as the brand with the best recall in Rio Grande do Sul in the *Grande Marca Gaúcha do Ano* category and ranked second among the preferred brands by the local population. The award surveys the recognition of companies in Rio Grande do Sul by the local population.

#### ✓ Motion of Applause to Gerdau's Volunteer Group in Barão de Cocais (MG)

Concedida por la Cámara de Ediles de Barão de Cocais como reconocimiento al trabajo social de Gerdau realizado en el municipio del estado de Minas Gerais.

#### ✓ Automotive Business Magazine — Diversity in the automotive chain

The Internship Program of the São Paulo Office and the Learning Program of the Araçariguama Mill (SP) were awarded by Automotive Business, in the Race and Ethnicity category, in recognition of their diversity practices and promotion of racial equality.

#### ✓ Companies that Best Communicate with Journalists Award

This award is promoted by Negócios da Comunicação magazine and by the Centro de Estados em Comunicação (Cecom) to recognize the quality of the relationship between companies and newsrooms. The winners are chosen by direct vote of journalists, and Gerdau has been awarded nine consecutive times in the Steel and Metallurgy category.

#### ✓ Abrasca Award – Best Annual Report

Gerdau received an Honorable Mention in the Economic-Financial Analysis category of the 21<sup>st</sup> Abrasca Best Annual Report Award, for its Integrated Reporting 2018.



Gerdau employees at the award ceremony of Automotive Business Magazine, which recognized the company's diversity actions.



### ✓ **Master Imobiliário Award**

This award granted by entities in the real estate sector recognized Gerdau in the professional innovation category for the Lab Habitação project.

### ✓ **TOP ADVB-RS de Marketing DigitalIG Award**

Gerdau was awarded in the Industry category, with the case 'capturing new business and recovering inactive customers'

### ✓ **Institutional Investor Award 2019**

Gerdau won the Investor Relations Award 2019 — Latam Team M&M — Midcap Category, organized by the Institutional Investor Magazine.

## United States

### ✓ **Regan Award**

Gerdau was awarded in the communication with employees category with the case 'Gerdau's Seminar Week', which is a week of lectures and workshops to discuss internal issues inherent to the work environment.

## Argentina

### ✓ **2019 Integration Award**

Awarded by Grupo Brasil in the Sustainability category and C.E.R (Conduta Empresarial Responsável — Responsible Business Conduct), for the "Leer Más, Compromiso Compartido" project.

### ✓ **Hexagon Award 2019**

Awarded by IDEA — Institute of Business Development of Argentina, for Training and Development of Human Resources.

### ✓ **Recognition "Commitment and Management"**

The Provincia ART insurance company recognized Gerdau for its focus on Safety and Accident Prevention inside and outside the company.

## Uruguay

### ✓ **Energy Efficiency Certificate 2019**

The Uruguayan Ministry of Industry, Energy and Mining awarded this certificate to Gerdau for the "Improving energy efficiency in the rolling mill area" project.



Época Negócios Awards  
São Paulo (SP)



BRAZIL

LATIN AMERICA

NORTH AMERICA

# OUR BUSINESS





BRAZIL

GRI 102-2, 102-6, 102-9

Brazil accounts for the largest share of Gerdau’s steel production. The company has a diversified production mix, offering flat, long and special steel to the market. Its clients are in the construction, automotive, energy, shipbuilding, machinery and appliances, and agribusiness sectors.

Gerdau also has in Brazil a vast chain of own steel distribution stores, mining operations for own consumption, port terminals, and a base of planted eucalyptus forests. This diversity of businesses makes the company’s operation in Brazil very competitive. In 2019, the Brazil Business Operation accounted for 39.5% of Gerdau’s net revenue.

The company relies on a network of supplier teams that range from cleaning and food to information technology and contractors, such as for renovations and equipment maintenance. Suppliers may provide services at industrial units or commercial offices, depending on their role.

Gerdau Riograndense Mill, Sapucaia do Sul (RS)





LONG AND FLAT STEELS

In 2019, Gerdau’s Brazil Business Operation produced, in its Brazilian mills, 5.6 million tons of crude steel in its long and flat steel operations, down 4.8% compared with the 2018 production, which totaled 5.8 million tons.

A major advance in the Brazilian operation in 2019 was the recovery of sales in retail. Deliveries of products to retailers grew substantially by 40% over 2018.

**Total deliveries to the domestic market, which cover all sales channels, not just retail, ended the year posting growth of around 5%,** with emphasis on flat and construction steel, signaling the initial recovery of the domestic market.

Another significant number is that sales through electronic channels account for 18% of Gerdau’s sales. The company launched a digital consumer relationship platform in June 2019 and also advanced in the relationship program (*Juntos Somos+*)

maintained in partnership with other companies. *(learn more about this in the Our relationships section).*

✔ **Leader ahead of schedule**

In the flat steel sector, Gerdau has invested heavily in recent years to enter the heavy steel plate market — more than US\$ 1 billion — and has been seeking to become a market leader in sales by 2021. This goal was achieved in 2019, with the company taking first place in heavy plate sales in the Brazilian market.

✔ **Maintenance downtime**

Gerdau’s integrated mill in Ouro Branco (MG) made a scheduled downtime in 2019 for maintenance of its assets. A complete shutdown of equipment of this type, in the steel industry, is always a huge technical, industrial, and business challenge. On that occasion, more than 5,000 people were involved for two months — July and August — in maintenance work, after which production was resumed normally.



Gerdau Ouro Branco Mill (MG)



Gerdau Steel is also  
present in wind  
turbine towers

## SPECIAL STEELS

Three Gerdau units produce special steel in Brazil: Charqueadas, in Rio Grande do Sul; Pindamonhangaba and Mogi das Cruzes, in São Paulo — three others do the same in the United States. **Special steels have specific physical and metallurgical characteristics for applications with high mechanical demands.** They are critical inputs in the automotive chain, also serving other relevant markets, such as oil & gas, wind power, machinery & equipment, among others.

The production of special steels fell by 27.8% in 2019 (including both Brazilian and U.S. production). In Brazil, the drop resulted from a shutdown at the Mogi das Cruzes (SP) mill, while sales were impacted by reduced inventories in the automotive chain and vehicle exports.







Gerdau Mill  
Ouro Branco (MG)

### ✓ Crisis in Mercosur

For the special steel sector, the automotive industry faced a particularly difficult scenario in 2019. On the one hand, the Argentine crisis caused a sharp drop in vehicle exports to the neighboring country, which extended to the world in general — ANFAVEA points to a 31.9% reduction in global Brazilian vehicle exports in 2019.

This negative impact was compounded by the downturn of the European and American automotive markets and the effects of the U.S.-China trade war, which depressed global prices of steel commodities.

On the other hand, the Brazilian automotive market showed signs of recovery in 2019, with a **growth of nearly 8.6% in sales and 2.3% in production volume during the year. This increase in sales was driven by the increase in direct sales**, to fleet owners, especially car rental

companies, given the boom in the ride-hailing market.

It is estimated that in São Paulo, Brazil's largest market, of every ten cars used by ride-hailing drivers, seven are rental. **The share of direct sales in total car sales in Brazil, which was 20% five years ago, exceeded 40% in 2019, according to studies carried out by Gerdau and partners.**

Some factors help offset some of the negative effects on the steel market of local crises, such as Argentina's and tensions in global trade. Among these factors is the rising pace of the truck market, heavy vehicles that use more steel to be produced than passenger cars.

Truck production is picking up steam and grew 7.5% in 2019. Trucks production in the year — 113,500 vehicles — is still far from the historical peak of 200,000 units per year, but gives positive signs of recovery of the economic activity.



## FOREST

Gerdau is also a large forest-based company. Planted forests are the source of renewable raw material for the production of charcoal used as a bio-reducing agent in the production of pig iron and steel.

The company is the world's largest producer of charcoal. Its planted forest base and the charcoal produced guarantee an important competitive differentiator in relation to steel producers that use metallurgical coal. They also add other benefits: Gerdau's forest base — with its associated areas of preserved native forest — plays a central role in controlling greenhouse gas emissions, which cause climate change, and serve as a habitat for thousands of animal species.

In the charcoal production technology, a new process was implemented to control the temperature of Gerdau Florestal's carbonization furnaces. With this, the company takes the first step to digitize monitoring of the carbonization process and automate it in the future.

**In 2019, Gerdau made important investments to implement a forest management system and software to optimize long-term planning for the forestry sector. In two years, from 2018 to 2019, approximately R\$ 1.5 million was invested in these systems, giving Gerdau robust tools for managing its forest base in the long term.**

Gerdau is also using a drone to obtain aerial imagery of its forest assets and, still in the test phase, to determine the inventory of its bio-reducing agent and wood. The initiative is part of experimenting with digital tools and image technology in forest management, such as satellite imagery and radar technologies.

Gerdau Florestal is based in the State of Minas Gerais, within the Cerrado and Atlantic Rainforest biomes, and has 254,000 hectares of forest, of which 91,000 are areas for biodiversity conservation. These conservation areas are important for the environmental stability of the properties and for the natural control of pests and diseases. We are responsible for supplying charcoal, called *bio redutor* (bio-reducing agent), a source of renewable energy, used in the blast furnaces of Gerdau's integrated steel mills in Barão de Cocais, Divinópolis, and Sete Lagoas.

Gerdau Florestal — Três Marias (MG)



## MINING

Gerdau operates two iron ore mines in Minas Gerais, in Brazil's Southeast. The production of these mines, which totaled 6.1 million tons in 2019, supplies the company's mills.

The company believes that its iron ore production represents an important competitive advantage to its steel and, at the end of 2019, received a permit from regulatory agencies to explore a new area in Várzea dos Lopes, in the municipality of Itabirito (MG). This project will meet the future demand for iron ore at the Ouro Branco mill and will have dry tailings processing, without the use of dams. The operation will produce around one million tons of ore per year.

In order to strengthen the relationship with the residents of Itabirito, Gerdau created a direct communication channel between the company and the community. The service receives suggestions, complaints, and requests from residents.

### ✓ The last mining dam

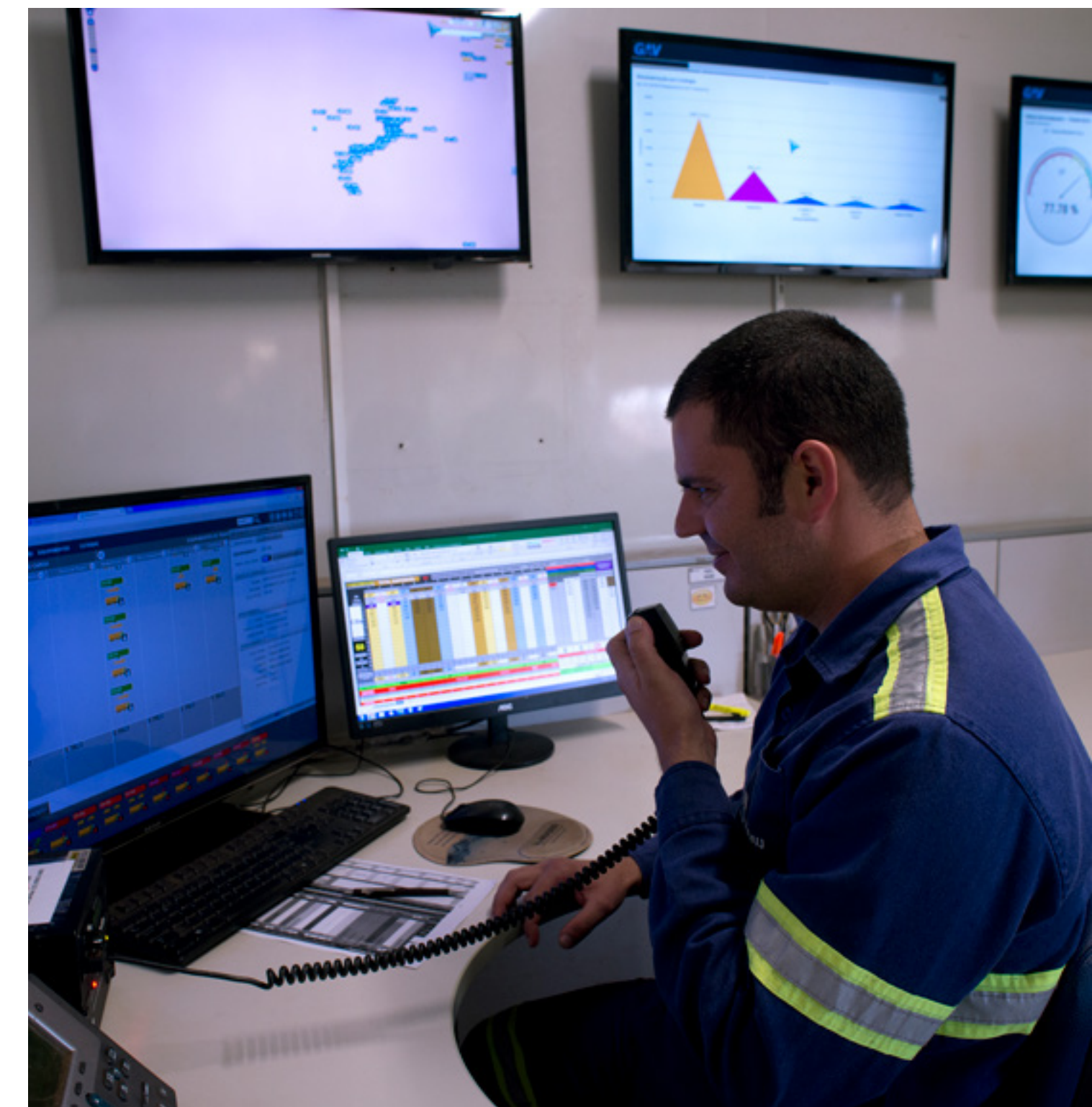
Gerdau ended 2019 with three mining dams in operation, according to the criteria of the National Mining Agency (ANM). At the beginning of the year, there were six tailings dams in operation. Three of them were de-characterized over the period, following a decision the company had made before 2019. The processes that had started at the Minas Gerais State Environmental Foundation (FEAM-MG) and at ANM were completed in 2019.

Gerdau is developing solutions for deposition of dry tailings and decommissioning of the Alemães dam (see more details below). The company intends to stop using tailings dams in all its mining operations in the shortest possible time. For this purpose, the company decided to postpone, for 18 months, the return to operation of the Ore Treatment Unit 1 (UTM 1) in the district of Miguel Burnier, Ouro Preto (MG), initially planned for May 2019.

The return to operation of the UTM 1, which had been decommissioned in 2014, would increase the company's generation of tailings. In order to avoid increasing the use of dams to deposit these tailings, Gerdau postponed its return to operation.

The company believes that this decision serves the interests of both shareholders — by refusing to increase the risks arising from the operation of tailings dams — and society, which would suffer the impact of these risks.

Control room,  
Várzea do Lopes Mine (MG)





### ✓ Bocaina

The Bocaina tailings dam, in Ouro Preto (MG), decommissioned since 2011 and already completely dry, received in 2019 the de-characterization technical report from the Minas Gerais State Environmental Agency (FEAM-MG). As a result, it was officially removed from ANM's list of mining dams and started to be treated as a dry stack tailings. When Bocaina was decommissioned, operations began at the Alemães tailings dam, always with a very clear commitment to preserving the environment.

### ✓ Alemães Dam

Gerdau's iron ore tailings dam — the Alemães Dam, in Ouro Preto — is still in operation and is an upstream dam. The structure is constantly monitored and audited. The company has agreements with ANM and FEAM-MG to adapt it to the new consolidated legislation in the second half of 2019 (Dam Safety Law).

Gerdau announced an investment of R\$ 300 million to develop new solutions for the deposition of dry tailings, planned for 2020, and for de-characterization of the Alemães dam. The solution for de-characterization of the Alemães dam is still pending approval from the State Department for the Environment and Sustainable Development (SEMAD) and should also be completed by 2021.

Gerdau Mine  
Várzea do Lopes (MG)





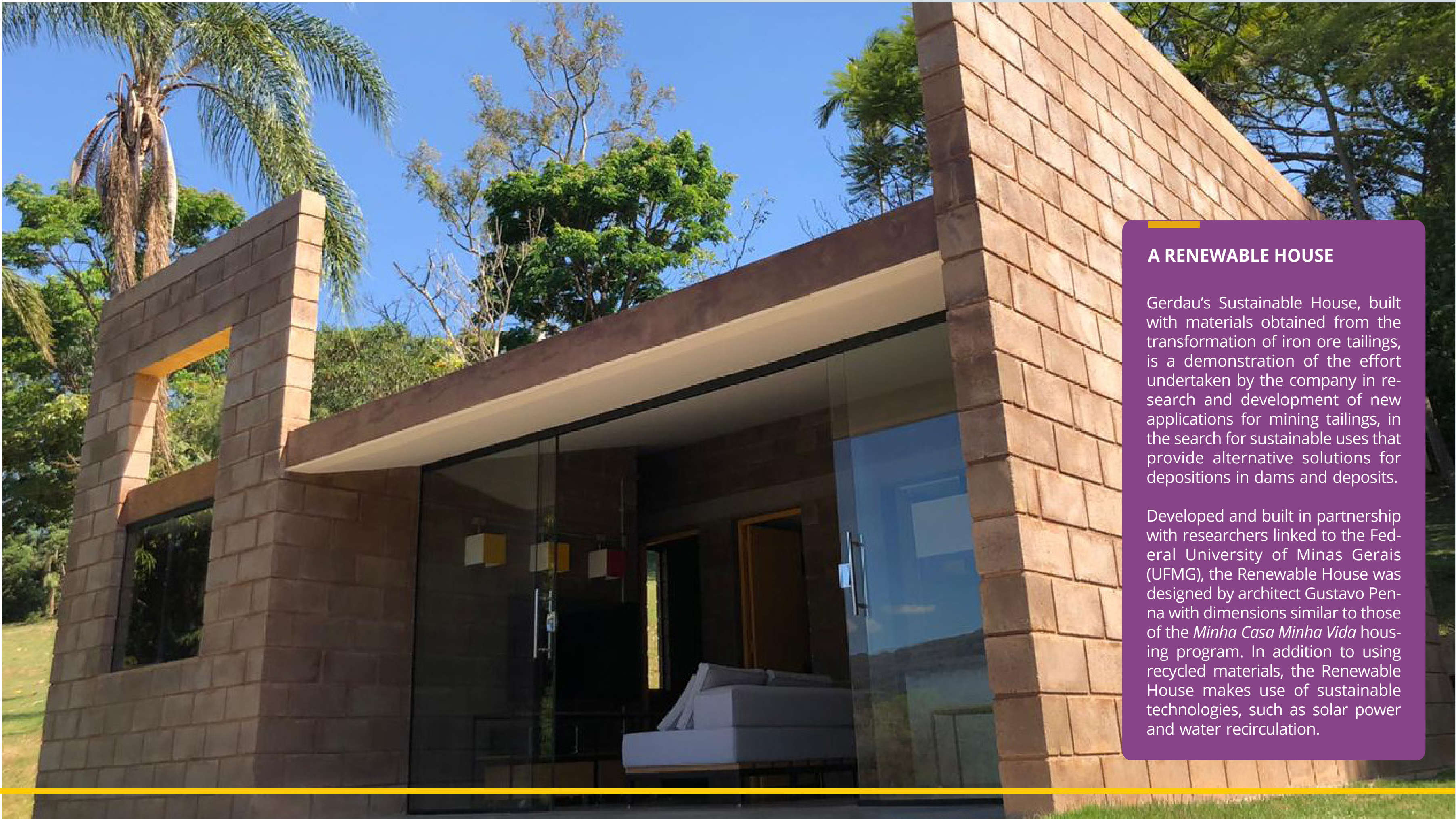
✓ A hub for mining

Gerdau is one of the creators and founders of the Mining Hub, an innovative collaborative space dedicated to the mining industry. Opened in January 2019, the Mining Hub is located in Belo Horizonte (MG) and is open to the participation of mining companies, suppliers, startups, and other applied innovation projects, such as academic projects and technology-based companies. The goal is to bring all these players together in a single space, to aid in the development of initiatives and projects aimed at mining activities.

**The work model is inspired by the practices in the world of digital innovation, with topics suggested to participants of the hub in order to instigate the collaborative development of innovative solutions, which are then examined by evaluation panels.**

Gerdau participates in the Mining Hub because it believes that a more collaborative future is the path toward transformative solutions for its business.

<https://g1.globo.com/jornal-nacional/noticia/2020/01/01/pesquisa-da-ufmg-aproveita-rejeitos-de-mineracao-na-construcao-civil.ghtml>



A RENEWABLE HOUSE

Gerdau's Sustainable House, built with materials obtained from the transformation of iron ore tailings, is a demonstration of the effort undertaken by the company in research and development of new applications for mining tailings, in the search for sustainable uses that provide alternative solutions for depositions in dams and deposits.

Developed and built in partnership with researchers linked to the Federal University of Minas Gerais (UFMG), the Renewable House was designed by architect Gustavo Penna with dimensions similar to those of the *Minha Casa Minha Vida* housing program. In addition to using recycled materials, the Renewable House makes use of sustainable technologies, such as solar power and water recirculation.



## LATIN AMERICA

Gerdau has units in Argentina, Peru, Uruguay, and Venezuela, with a combined production capacity of 1.72 million tons of crude steel and 1.1 million tons of rolled products, in addition to jointly controlled companies in the Dominican Republic and Colombia.

These units comprise steel mills, retail facilities, product stores (including joint ventures and associated companies) and scrap processing facilities. The mills with the largest installed capacity are those in Argentina and Peru.

The companies in the South America Business Operation (which includes the joint venture in the Dominican Republic) meet the demands of their domestic markets. In 2019, the Operation was responsi-

ble for 8% of Gerdau's net revenues and produced 609,000 tons of crude steel, down 18.3% over 2018, when 746,000 tons were produced.

However, production in the fourth quarter of 2019 increased by 11.7% over the same quarter in 2018 (sales in the period also grew). This positive result reflects the higher sales volumes recorded in Argentina and Peru, countries that maintained healthy levels of construction activity.



Gerdau's Melt Shop  
in Rosario, Argentina



## NORTH AMERICA

Gerdau has, in the three North American countries (United States, Canada, and Mexico), a vertically integrated network of 14 steel units, in addition to scrap recycling facilities and downstream operations.

The annual joint production capacity of the North America Business Division (BD) (which does not include special steel operations) is 8.1 million tons of crude steel and 5.9 million tons of finished steel products. Of the total crude steel, around 500,000 tons correspond to Gerdau's unit in Mexico City, and 1.3 million tons to operations in Whitby and Manitoba, Canada.

All remaining capacity is installed in the United States, in the cities of Cartersville (Georgia), Charlotte (North Carolina), Jackson (Tennessee), St. Paul (Minnesota), Wilton (Iowa), Midlothian (Texas), and Petersburg (Virginia). In addition to the facilities in operation, there is a unit temporarily shutdown in Cambridge, Canada.

### LONG STEELS

Sales offices in Tampa (Florida), Selkirk (Manitoba), and Midlothian (Texas) manage sales of different types of Gerdau products in the United States and Canada. The North America Business Division accounts for most of the operations in the region (except special steels) and produced 4.6 million tons of steel in 2019.

This result would represent a 28.5% drop compared to 2018. But when comparing the 2019 and 2018 figures for North American operations, it is necessary to take into account the impact of the divestment of rebar assets in the region in November 2018. When the effects of these divestments are purged, sales of the North America BD represent a 4% growth in the year (without the purge, sales would have dropped 29.7%). In 2019, the North America BD accounted for 36% of Gerdau's net revenue.

Gerdau mill  
in Sahagún, Mexico





## ROADMAP

In 2019, the North America BD developed a medium — and long-term strategic plan — a roadmap that sets the goal of investing and growing in the most profitable sectors of the market, and defines actions in this direction, such as increasing the level of investments (CAPEX) compared with the past ten years, expand the product portfolio and reduce the cost structure of the most important assets.

This evolution will be supported by investments in processes and systems that facilitate access to Gerdau products and make the entire procurement process simpler and more user-friendly, in order to put customers at the heart of the business.

## GERDAU IN MEXICO

Gerdau is present in Mexico through Gerdau Corsa, one of the country's main producers of long steel, and the semi-integrated mill Siderúrgica Tultitlán. Gerdau Corsa operates three steel production and rolling mills with a capacity of around one million tons of liquid steel per year and has more than 1,000 employees. The company also has seven scrap

collection and processing units — the raw material for the company's semi-integrated operation (with electric arc furnace) — and two distribution centers, with a network of distributors for its products in the Mexican territory.

## SPECIAL STEELS

Gerdau's Special Steel Business Division has three industrial facilities in North America, all in the United States — in Jackson (Michigan), Monroe (Michigan), and Fort Smith (Arkansas). The company also operates a downstream unit in Huntington (Indiana). Together with the three Brazilian special steel units, the North American facilities form the Special Steel Business Division.

Gerdau completed an investment program of more than US\$ 300 million in 2019 at the Monroe mill in Michigan. In this last contribution, US\$ 100 million are being invested in increasing the mill's production capacity and modernizing its equipment.

As a result, a new ladle furnace is expected to start operating in the first quarter of 2020, followed

by a new electric arc furnace in August, and a new rolling mill cooling bed.

The investments will increase the mill's production capacity from around 500,000 tons of steel per year to more than 750,000 tons per year, to be reached after a period of two or three years of operational adjustments after the start of production.

The expansion project is also aimed at improving product quality and developing new applications for the automotive industry, with very promising initial results. Applications such as bearings and steering systems will benefit. When the investments are completed, Gerdau's Monroe mill will be at par, in terms of assets, with the best mills in the world in its class.

**A recently published customer satisfaction survey places Gerdau's special steel operation as number one in the United States, in terms of customer focus, development support, and service level for customers.**



## WEAK DEMAND

In 2019, results of operations in the United States were affected by a sharp drop in demand for steel products in markets that are large consumers of steel, such as the industrial market in general and, in particular, the oil and gas, and automotive sectors. The latter, Gerdau's main customer in the region, was coming from a period of more than 12 months of stockpiling, and 2019 was the year when demand returned to previous levels.

On the other hand, the General Motors (GM) strike in the United States in late 2019 resulted in a reduction of 300,000 units in vehicle production. The shutdown caused postponement and cancellation of steel orders in the short term.

## AUTOMOTIVE PRODUCTS

In parallel with the modernization of equipment, the special steel operation in North America has been working very closely with the automotive chain to understand the transformations that the industry has been undergoing and to develop

products that follow the major trends in the sector for the coming decades, such as electric cars and autonomous vehicles.

It will be necessary, for example, to use lighter materials to offset the weight of the batteries that provide power to move electric cars, which opens up a range of possibilities for research and development of special, lightweight steels to meet this requirement — a movement called lightweighting.

Cars with conventional engines would also gain by reducing weight, which would allow them to use smaller, more economical engines with lower levels of greenhouse gas emissions, providing environmental and economic benefits.

In addition to improvements in the production line, in 2019, Gerdau invested in a management system for its special steel operations in North America. The new system is expected to enter into operation in the first quarter of 2020 and will bring important advances to the operation in the areas of access to data and facilitated search for information.



Special Steel Mill  
in Monroe, Michigan (USA)



Gerdau Office  
São Paulo (SP)

# OUR RELATIONSHIPS

*THE JOURNEY OF DIVERSITY*

*CONNECTED CLIENTS*

*STRENGTHENED PARTNERSHIPS*



Gerdau employees  
in São Paulo (SP)



## THE JOURNEY OF DIVERSITY AND INCLUSION

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity

In 2019, diversity and listening were the pillars of relationships at Gerdau, and should continue to be so from now on. It is the willingness to actively listen that makes it possible to fully reap the wealth of knowledge and insights provided by a truly diverse environment.

More than acting in line with international human rights standards, with Brazilian legislation and with best social responsibility practices, respect for diversity is a strategic issue for Gerdau.

By acting to transform the internal environment, the company contributes to the attainment of UN's 10th Sustainable Development Goal, which seeks to reduce inequalities, empower and promote social, economic and political inclusion for all, regardless of age, gender, disability, race, ethnicity, origin, religion, economic situation or other condition, and to attain the 5th Sustainable Development Goal, which sets goals for gender equality by 2030.

Gerdau aspires to be one of the most inclusive companies in the industrial segment, with a team

that reflects the diversity of society. The company works so that all its employees are committed to promoting equality, thus creating an inclusive culture of respect and appreciation of diversity. This commitment is reflected, in practice, in inclusion initiatives that combat all forms of discrimination and prejudice, working with priority topics: gender, race and ethnicity, PwD, and LGBTI+.

In 2019, the company implemented initiatives to encourage diversity in the workplace, one of the pillars of the profound cultural transformation underway at the company. Launched in 2017, the actions initially focused on promoting gender diversity; as of 2019, three new audiences were included in the initiative: race and ethnicity, people with disabilities (PwD), and the LGBTI+ community.





The Diversity program started to be organized by affinity groups corresponding to the topics covered. These groups came together regularly to discuss specific guidelines and actions for each topic and evaluate the progress of the work. Each group is under the responsibility of a member of the company's senior management. Currently, more than 300 volunteers are working in these groups and in the Diversity Committees.

In 2019, a specific position was also created for the Management of Diversity and Inclusion that coordinates actions globally. The Diversity strategy is validated and monitored by the Strategic Diversity Committee at bimonthly meetings. This committee was created in 2018 and is formed by the CEO and directors of several areas: People, Communication & Institutional Affairs, Finance & Comptrollership, and Business Areas.

**Gerdau publicly assumed its commitments to promoting Diversity and Inclusion**

**by becoming a signatory to the LGBTI+ Companies and Rights Forum, the Business Coalition for Racial and Gender Equality, the Pact for the Inclusion of People with Disabilities, and the Business Coalition for Ending Violence Against Women. Another commitment is to the UN Women's Empowerment Principles, to which the company has been a signatory since 2017. GRI 102-12**

In order to understand the progress in equality, business indicators (women and blacks in leadership positions, inclusion and retention of women and PwDs, etc.) are monitored and an Opinion Survey is conducted globally to measure employee engagement, which also includes aspects of diversity. In 2019, the result was 81% favorable when employees were asked whether "in our company people feel they are treated equally regardless of race, gender, age, disability, religion, etc."

The use of the Ethics Channel is also encouraged to report situations of discrimination,

harassment, favoritism or any form of disrespect. This is a completely confidential reporting tool. Reports can be anonymous and all of them are investigated.

VALUE ACTIONS

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity

To advance its principle of diversity — Diverse and inclusive environment — Gerdau has developed several actions and projects. The company created, for example, an Internship and Apprentices program focused on hiring blacks, through which 32 interns and 15 apprentices joined the company in 2019. This was a first step toward encouraging professional development and reaching, later on, a greater number of black leaders in Gerdau's staff.

DIVERSITY FOR SOCIAL INCLUSION

Gerdau's CEO, Gustavo Werneck, leads the Diversity group of the CEO's Legacy initiative, from Fundação Dom Cabral, which mobilizes CEOs to build relevant and sustainable legacies, capable of inspiring people, organizations, and society.

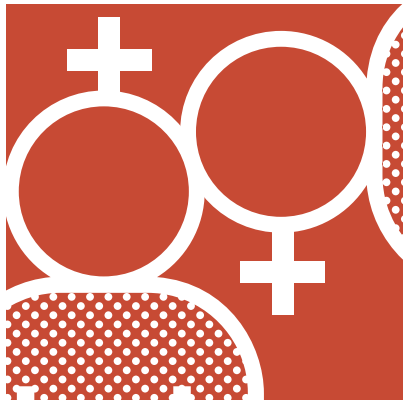
The group seeks to inspire, raise awareness, encourage and mobilize the Brazilian business system, implement diversity management and inclusion in organizations, contributing to a more responsible business system, in search of a more prosperous and just country.



ACTIONS TO PROMOTE DIVERSITY IN 2019\*

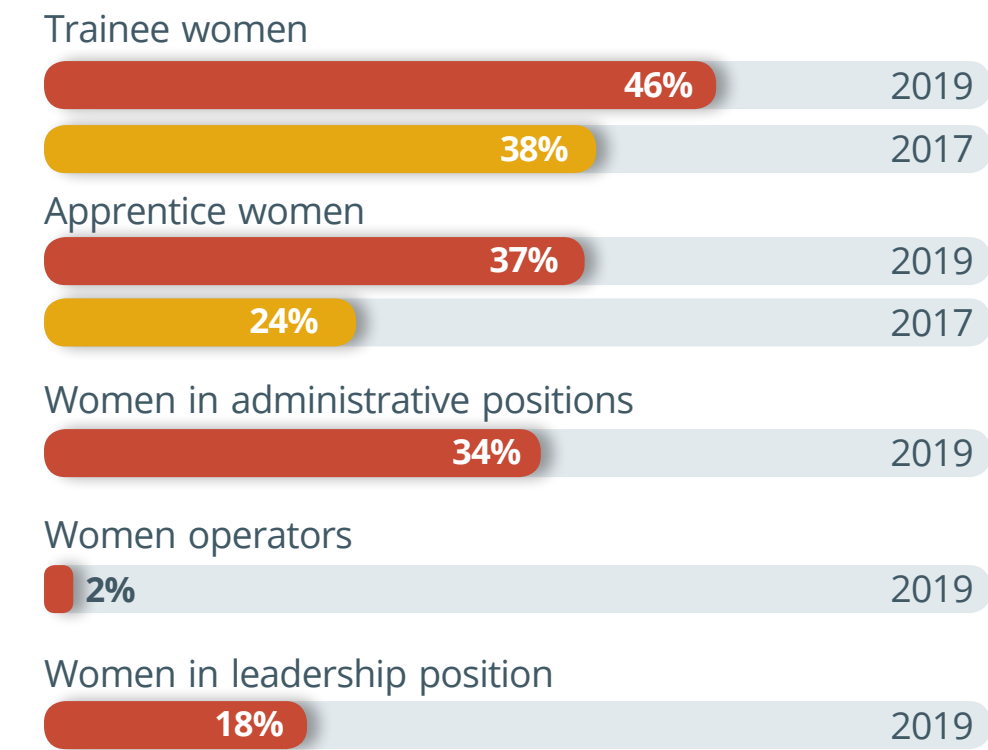
\* The actions described on this page refer to operations in Brazil.

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity



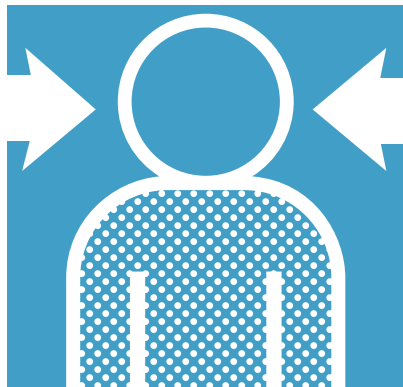
Genre LGBTI+

- ✓ Women’s Leadership Development: “Women Empow-ered” in North America
- ✓ Supply Chain: priority for companies in *Rede Mulher Empreendedora* (Entrepreneur Women Network) – *Conecta* Program
- ✓ Social Investment: Business Management training for women in the community
- ✓ Adherence to the Business Coalition to End Violence Against Women and Girls



Race and ethnicity

- ✓ Priority in hiring black youth in certain regions
- ✓ Trainee and Apprentice Program: priority in hiring young blacks
- ✓ Training leaders and interns (self-knowledge and ca-reer development)
- ✓ Development of material for dialogues about racial and ethnic prejudice
- ✓ Hiring of refugees
- ✓ Participation in the Racial Equality Forum ID\_BR
- ✓ Black Awareness Week, Lecture, workshops, and afro fair

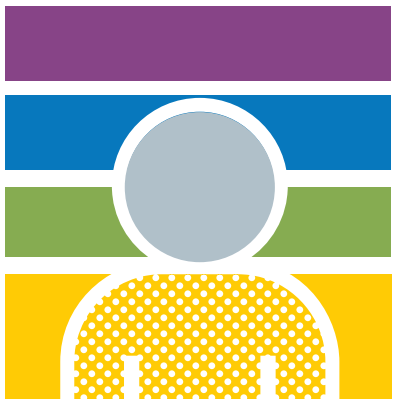


PwD

Learning Program:  
**100+ PwD**  
trained in Gerdau’s operations

- ✓ Participation in PwD recruitment fair
- ✓ Training for Committee and Affinity Group
- ✓ Development of material for dialogues on people with disabilities

**2%**  
of PwDs in the workforce



LGBTI+

**Social name**

systems and processes updated to allow  
for the use of their social names in the  
company

- ✓ Health plan: inclusion of same-sex partner as a de-pendent in the plan
- ✓ Training for Committee and Affinity Group
- ✓ Support for transitioning transgender employees



## SPACE FOR

## WOMEN

**GRI 103-1, 103-2, 103-3: 405**  
Diversity and equal  
opportunity

*Actions promoted to increase gender diversity in the workplace.*

- ✓ Signature of the UN Women's Empowerment Principles.
- ✓ Awareness and training workshops for more than 1,500 leaders to identify unconscious biases, not only focused on gender, but also on aspects of diversity in general.
- ✓ Greater number of bathrooms for women at the mills.
- ✓ Creation of uniforms adapted for pregnant women.
- ✓ Disclosure of jobs aimed at hiring women.
- ✓ Six-month maternity leave.

LGBTI+ pride post  
on Gerdau's social  
networks in 2019



An important step toward gender equality at Gerdau was the appointment, in 2019, of Claudia Sender, the first woman to join the company's Board of Directors, as an independent member.

The industrial areas of various operations, such as at the Pirituba slitting & folding unit in São Paulo, also started to hire women. In January 2019, women accounted for 3% of the workforce, climbing to 18% in December. Considering only the operational staff, in January, the operation was 100% formed by men, and 13% by women at the end of 2019.

Another initiative promoted awareness actions and actions to ensure equal rights and benefits for LGBTI+ employees, such as adoption leave, parental leave, and health insurance for same-sex spouses. In addition, the company began to position itself publicly as an ally of the LGBTI+ movement.

The company also turns its attention to trans people who, although they have not changed their names in the documents, can request, at the time of hiring or at any time, that the social name be adopted on the badge, in the email address and in all communications.

## PACTS





## GERDAU'S DIVERSITY WORLDWIDE

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity

In addition to the initiatives aimed at Diversity performed in Brazil and described on the previous pages, this topic is a focus on the other countries where Gerdau operates.

### NORTH AMERICA

- Communication initiatives in accordance with the Diversity calendar
- Creation of WE Woman Empowered (100 members)
- Leader Talks - female leadership
- Peer Mentoring Program
- Videos: stories of female leadership
- Training in unconscious bias

### MEXICO

- Analysis of demographic data
- Train the trainers in unconscious bias

### PERU

- Training in unconscious bias
- Leadership awareness
- Meeting with Women (Lima and Chimbote)
- Hiring of the first intellectual disabled person

### DOMINICAN REPUBLIC AND COLOMBIA

- Signature of the Letter of Commitment for Gender Equality in conjunction with the Global Compact and the Sustainable Development Goals
- Hiring women for operating positions
- Communication initiatives in accordance with the diversity calendar
- Participation in Pride Connection
- Diversity seminars for all employees

### BRAZIL

- Gerdau's corporate headquarters responsible for coordinating the company's global diversity strategies listed on the previous pages of this report.

### ARGENTINA AND URUGUAY

- Women's bathroom in breastfeeding areas and rooms
- Communication initiatives in accordance with the diversity calendar
- Creation of the Diversity Committee (12 participants)
- Hiring of the first female operators in Argentina
- Internship program including PwDs and at least 50% women
- Training in unconscious bias



## BARRIERS REMOVED

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity

Gerdau also worked to remove barriers to hiring and eliminated non-essential requirements for the beginning of the career and that can be fulfilled later, through in-house training programs.

Blind selections were also made for candidates for certain job positions. In this selection procedure, candidates' names, universities, and addresses are left out from the résumés taken to the selection panel, as a way to neutralize any gender and social class bias and encourage the inclusion of minorities and disadvantaged applicants.

## DIVERSITY WEEK

- ✔ More than 18,000 employees formed the target audience for Gerdau's first Diversity Week, held in May 2019. Lectures, debates, and films marked the event, in which the Primer on Diversity was distributed — a 60-page pocket booklet that contains concepts and guidelines related to this topic.



Diversity Week  
2019



GREATER FLEXIBILITY

GRI 103-1, 103-2, 103-3: 405 Diversity and equal opportunity

In 2019, Gerdau announced a 20-day extended paternity leave for its employees. The benefit comes in addition to others already in place in some units of the company, such as flexible hours, home office, and Summer Friday, when employees can leave after lunch and make up for these hours on other days of the week.

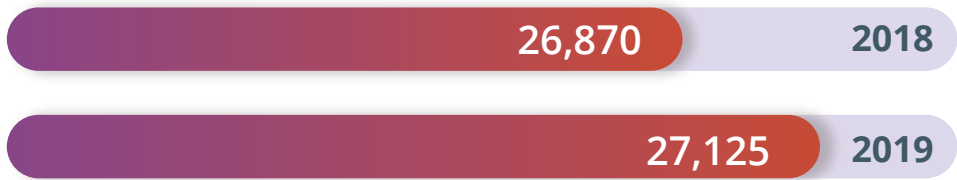
Health was also the focus of some programs developed during the year. Telemedicine, carried out in partnership with Hospital Albert Einstein, allows employees and their families from all over Brazil to receive remote care from the staff of one of the best hospitals in the country. There is also the *Mais Cuidado* program, through which participants can receive psychological or legal support in times of need.

And for employees who become mothers, work has been done to increase women’s retention and engagement after maternity leave. The number of women who left the company after returning from maternity leave dropped from 28% in 2018 to 5% in 2019. In addition, spaces for pumping and storing milk have been installed, where mothers newly arrived from leave can feel free to pump and store milk, facilitating their return to work.

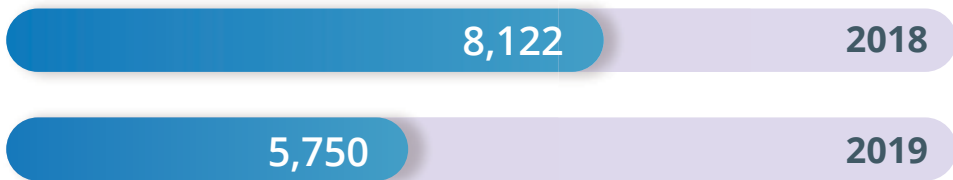
GERDAU PROFESSIONALS

GRI 102-8

Total number of company employees  
(at the end of the reporting period)



Total number of workers  
who are not employees



**Note 1:** All Gerdau operations are included in this data.

**Note 2:** The following are being considered: Total number of company employees (at the end of the reporting period): considered headcount of Dec./18 x Dec./19 with apprentices and interns. Did not consider those on leave. Total number of workers who are not employees: considered headcount Contractor Productivity of Dec./18 x Dec/19. Some contractors were not considered, since we do not report contractors in administrative (e.g., restaurant, maintenance and cleaning, etc.) or investment positions. Company employees with a permanent contract: considered operational, administrative and leadership. Company employees with fixed or temporary contracts: considered apprentices and interns. Company employees on a part-time basis (up to 25 hours per week): we do not have this model.

Gerdau Office  
São Paulo (SP)



**GERDAU EMPLOYEES**  
GRI 102-8

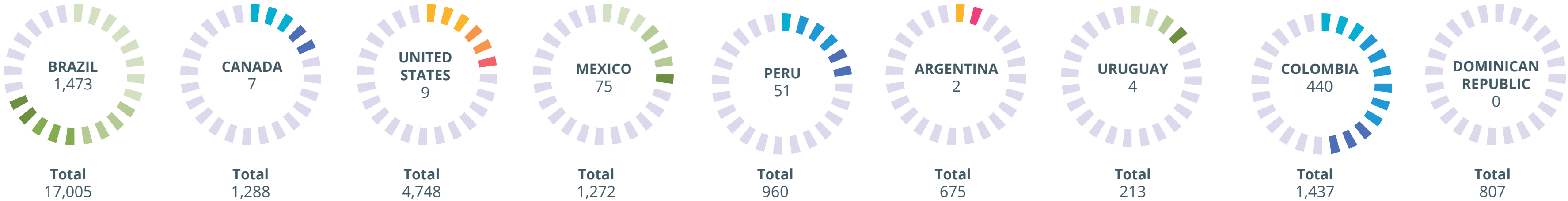
**Total number of employees by employment contract and region**

2018

Company employees with permanent employment contract



Company employees with fixed or temporary employment contract



**Note 1:** Data for Venezuela are not available.

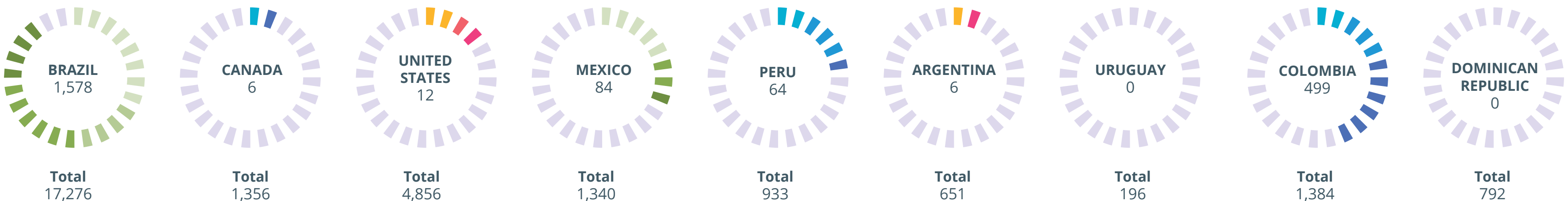
**Note 2:** The following are being considered: Total number of company employees (at the end of the reporting period); considered head-count of Dec./18 x Dec./19 with apprentices and interns. Did not consider those on leave. Total number of workers who are not employees: considered headcount Contractor Productivity of Dec./18 x Dec./19. Some contractors were not considered, since we do not report contractors in administrative (e.g., restaurant, maintenance and cleaning, etc.) or investment positions. Company employees with a permanent contract: considered operational, administrative and leadership. Company employees with fixed or temporary contracts: considered apprentices and interns. Company employees on a part-time basis (up to 25 hours per week): we do not have this model.

2019

Company employees with permanent employment contract

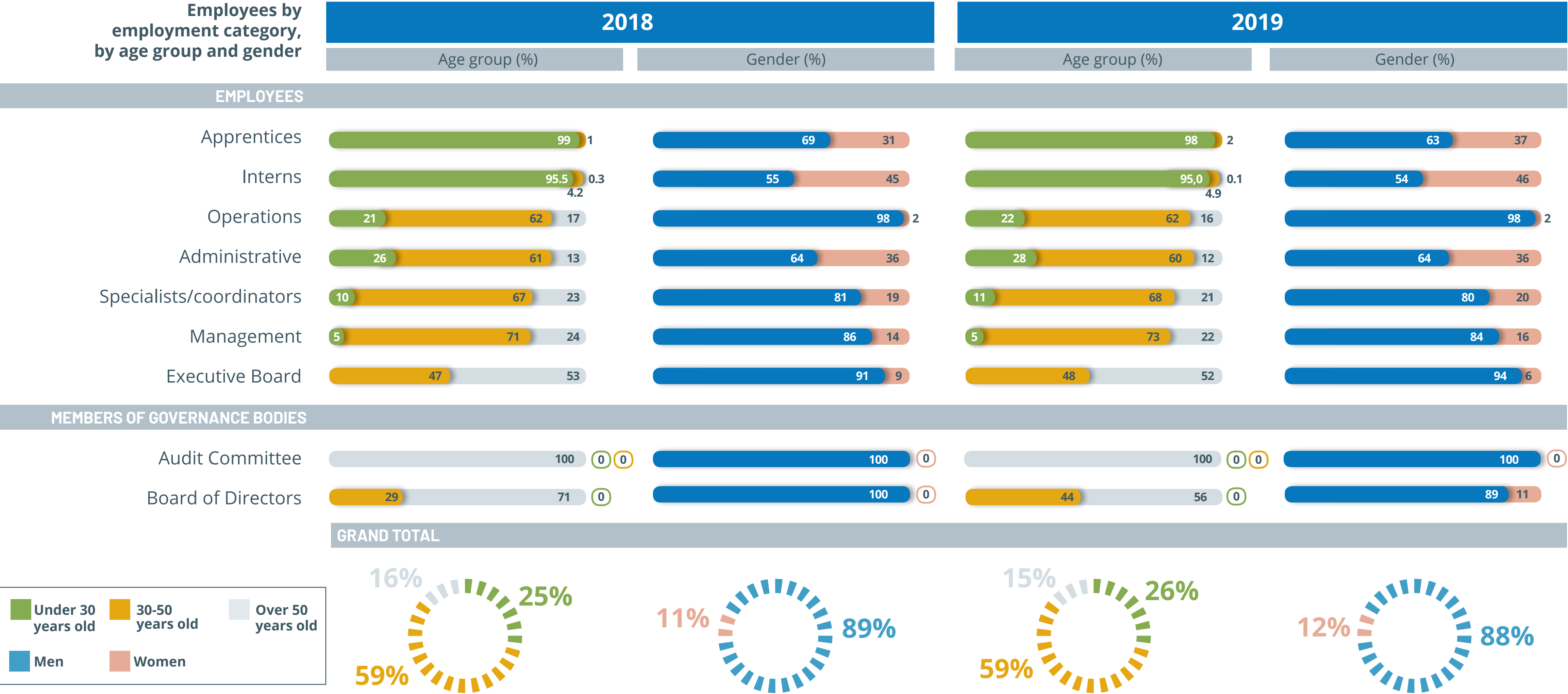


Company employees with fixed or temporary employment contract





GERDAU'S DIVERSITY PROFILE  
GRI 405-1



All employees are covered by the collective bargaining agreements. The agreements do not apply to contractors. [GRI 102-41](#)



## FOUR-PHASE TRAINING

The year of 2019 consolidated Gerdau's training programs, after being revised in line with the company's cultural transformation. Five programs form the backbone that supports the development of a career and the acquisition of new skills after joining the company as an intern in order to encourage collaborative work and feed a digital mindset.

### ✓ G.Start

G.Start is a university internship program aimed at young adults who want to streamline their professional development and help build the Gerdau of the future. During the program, interns improve their technical knowledge in their fields of study and develop competencies such as creativity, collaboration, openness, safety attitude and focus on results. The program helps develop new professionals capable of proposing simple and agile solutions collaboratively and in increasingly dynamic business environments, with a development plan that encourages young professionals to play a leading role in their careers. This is achieved through challenge-projects, which are conducted jointly with the leaders of areas. In addition to incorporating Gerdau's culture, the students learn about the business (production process, products, applications,

and clients) and have the opportunity to apply their knowledge in conducting a challenge project with the support of a tutor. Registrations are opened every six months.

### ✓ G.Next

G.Next is aimed at employees who want to prepare for their initial leadership positions at Gerdau. Over the course of 18 months, they take part in a robust development path, with technical and behavioral content to accelerate their development in topics such as business, safety, routine and project management, and leadership. The group is formed by 40 employees from the administration and interns, from different areas and regions.

### ✓ G.Lead

G.Lead develops professionals who have been in initial leadership positions for three years. Employees who join the program are ready to take on greater challenges, impacting the business in increasingly challenging environments. Over the course of one year, members participate in a development trail with content related to business vision, leadership and people management, digital mindset, and industry 4.0. The group is formed by 40 coordinators and specialists, selected inside and outside Gerdau, from different areas and regions.

### ✓ G.Makers

G.Makers is a development program for professionals who already work at Gerdau, and others from the market to compose a team with diverse experience and a lot of energy to transform the company. They participate in a training program in digital mindset and innovation and apply their learning to high-impact projects, adding unconventional solutions that modernize the Gerdau culture and enhance the results. In 2019, the second edition of the program started with a group of 35 professionals.

### ✓ G.Data

G.Data is intended to develop data analysis skills, using Data Science principles for non-programmers. Program participants learn how to use data to make decisions and gain insights that will improve day-to-day operation. The program offers theoretical classes and practical application in the organization's projects. The 2019 class trained 25 employees from different areas and units of the company.

In addition to these programs, topics related to transformation and digital mindset were disseminated to employees through meet-ups and training in a program called Be Digital.

## CONNECTION DAY

Connection Day aims to develop and connect high-performance leaders to business executives. In 2019, two editions took place in São Paulo for employees from all operations in Brazil, involving nearly 50 people. The guests participated in training courses taught by a partner Business School and performed integration activities — inside and outside Gerdau — with senior management.



Gerdau Office São Paulo (SP)



## PERFORMANCE VALUES

### COLLABORATION

The year 2019 also brought important changes to the Leadership Performance Evaluation. The new model no longer has Calibration Committees to compare employee performance, which could have negative impacts on individual variable pay depending on their position on the comparison curve. Today, Gerdau now has Performance Committees in place focused on discussing and recognizing those with outstanding performance, considering the employee's deliveries and conduct. The purpose of the new evaluation is to reduce labels, increase collaboration, streamline the process, and enhance the performance of the team.

In the same vein, the Short-Term Incentive, which was composed of 50% of business goals and 50% of individual goals, is now 70% of business goals and 30% of individual goals. This new model is in line with the new culture of the company, focusing on collaboration, simplicity, and value creation.

In addition, as of 2020, the cap of the variable pay in relation to Gerdau's net income

was reduced from 20% to 15%. This cap aims to align variable pay with market practices and the interests of shareholders.

For the Long-Term Incentive, the company plans to include, in the next cycle, sustainability indicators linked to the ESG Scorecard in order to align remuneration incentives of senior management with the advances in environmental, social, and governance topics.

### LAYOFFS WITH THE DOWNTURN OF EXPORTS

In 2019, Gerdau suspended the activities at some of its mills in the State of Minas Gerais and laid off part of their employees. As a result of the low margins in steel exports, it was necessary to make a layoff agreement with some employees.

Likewise, Gerdau opened negotiations with the local union in Charqueadas (RS) to carry out another layoff program seeking to maintain existing jobs. This decision was made after the Brazilian automotive industry — the main consumer of special steel produced in the unit — placed workers on a collective vacation, due to the economic crisis in Argentina.

For the same reason, a similar program started in March 2019 in the Mogi (SP) mills was extended to the end of the year. In this case, the employees affected were on paid leave and attended a profession-

al training program. Gerdau expects that conditions in the domestic and foreign markets will continue to evolve, so that all the company's mills can return to operating at nominal capacity.



G.Lead class graduation





Gerdau Mill  
Ouro Branco (MG)



## BETTER HEALTHCARE FOR EMPLOYEES

GRI 403-3, 403-6

Gerdau has health plan benefit programs in place for all its employees and their dependents.

The Occupational Health and Hygiene services have the following programs to identify hazards and minimize risks:

- ✓ Occupational Hygiene Program
- ✓ Occupational Health Medical Control
- ✓ Ergonomics Program
- ✓ Alcohol and Drug Use Control
- ✓ Respiratory Protection Program
- ✓ Hearing Conservation Program


All our units have a clinic formed by medical professionals (doctors, nurses and nursing assistants). The number and type of professionals depends on the size of the unit and number of employees.

## WORKPLACE SAFETY

### AS A PRIORITY

GRI 103-1, 103-2, 103-3: 403 Occupational health and safety

Gerdau has a list of Principles, the first of which is “Safety First”. The health and safety management system has practices and tools in place to receive and handle grievances, such as Reports on Below-Standard Acts and Conditions and the practice

of Refusing to Perform Risky Tasks. In addition to these specific practices, the company has other channels for complaints, such as meetings with teams and the Ethics Channel. There is also an Integrated Health, Safety, Environment, and Quality Policy. (<https://www2.gerdau.com.br/downloadable-resource/politica-integrada-de-saude-e-seguranca-meio-ambiente-e-qualidade>). 

In 2019, Gerdau achieved good results after restructuring its Workplace Safety policies, which began three years ago. The severity rate of occupational accidents recorded in the year was the lowest in the company's history.

To achieve this reduction, which began in 2018, Gerdau changed its accident prevention concept, paying more attention to certain situations that could potentially lead to fatal or high-severity accidents.

In other words, priority was given to identifying and averting risks of hazardous situations before leading to severe or fatal accidents, and not simply looking for ways to prevent accidents that happen more frequently, even if less serious.

The topic Safety in Processes was also covered during the year, which, after pilot implementations at the Ouro Branco and Riograndense units, was integrated into corporate safety management in the form of new requirements.



Several actions were taken to assess the effectiveness of management, from benchmarking visits to evaluate new practices or improve the existing ones, to audits/assessments of the management system. Each location evaluates its health and safety practices on a monthly basis, and cross-unit audits are also conducted. After analyzing the results of Health and Safety indicators, evaluations and audits, and the opportunities for improvement found, actions are defined for the coming cycle to improve the organization’s performance.

The company’s performance in the area of health and safety has been highlighted in the global steel industry, with data obtained from worldsteel. The main critical risks at the units are: handling of scrap, transportation of molten steel, mobile equipment, overhead cranes, confined spaces, work at heights, circulation of vehicles and people, energy shutdown, railways, machine guards, buildings and constructions, and gases. For all such risks, prevention standards have been developed with mandatory requirements to mitigate the risk or reduce them to acceptable levels through engineering measures, physical protection, procedures, and specific PPE for their prevention.

2019 IN NUMBERS

GRI 403-9

Company employees

Work-related accidents

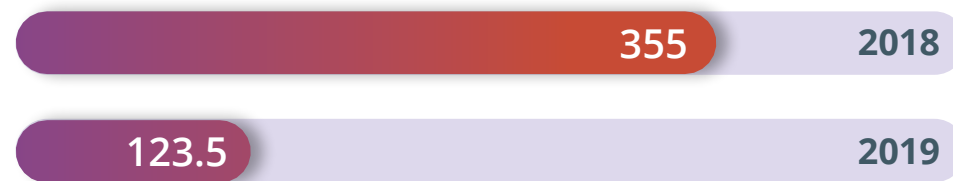
Number of fatalities due to work-related accidents



Rate of fatalities due to work-related accidents



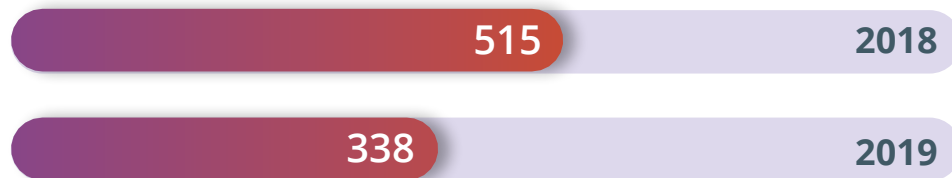
Accident severity rate



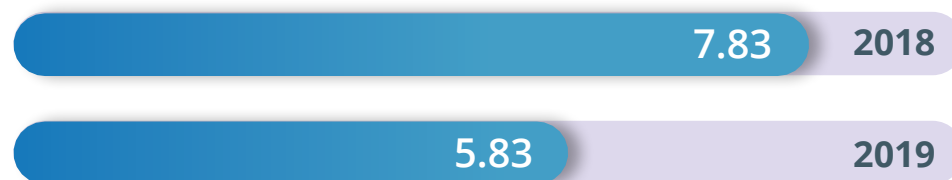
Number of severe work-related accidents (excluding fatalities)



Number of work-related accidents



Rate of work-related accidents (frequency rate)



Number of hours worked



Rate of severe work-related accidents (excluding fatalities)



**Note:** the main types of injuries recorded are: cuts, contusions, burns. Rates were calculated based on 1,000,000 hours worked. The measures shown on the side apply to all employees and contractors, as well as truck drivers and visitors to our facilities. All Gerdau units are included in the scope of this indicator.



Gerdau Mill  
Ouro Branco (MG)

EFFICIENT MANAGEMENT

GRI 403-1, 403-2, 403-4, 403-8

Gerdau has a health and safety management system with practices and tools operating in three barriers: physical, systemic, and behavioral. The purpose of this system is to establish the guidelines for health management, occupational safety and process safety, and define minimum health and safety compliance requirements for all units. This system covers all company industrial, commercial, and transformation units and applies to all employees and service providers. Gerdau complies with the local laws in all countries where it operates.

There is a specific practice to identify hazards and assess risks. The hierarchy of controls must be taken into account when defining actions to reduce risks and address highly critical risks. The leaders of the operational areas, with supervision and support from Health and Safety professionals, conduct the process to identity hazards and assess risks. Assessments where more complex and spe-



SAFETY  
TRAINING

GRI 403-5  
For each function, there is a Training Matrix that establishes mandatory training and re-training frequency when necessary. For contractors, the company always provides onboarding training, as well as training on Risk Analysis and Work Permit, as needed. All other training required for contractors must be performed, with proof of completion before these professionals can enter the Gerdau units.

KEEP AN EYE OUT FOR  
OTHERS ON THE ROAD

GRI 403-7  
Gerdau units have traffic accident prevention programs in place, guidelines in primers, and training for truck drivers, whether transporting raw materials or products. Campaigns are also carried out for external salespeople aiming to prevent accidents in performing their activities.



cialized methodologies are used are also monitored or carried out by external consultants specializing in these tools.

**Gerdau encourages its employees to avoid risks and, for this, it has a tool called *Recusa a Tarefa de Risco* (Refusal to Perform Risky Tasks.)** Company workers and contractors have the right to refuse to perform any work that they believe poses uncontrolled risks. If the risk is confirmed by leadership and the Health and Safety technical team, work will be interrupted until the risk is eliminated or controlled. **This entire process is audited to avoid any type of abuse or retaliation.**

Employees participate in the development, implementation, and evaluation of the health and safety management system through the tools to report safety incidents, in performing safety practices under their responsibility and during team meetings with leadership. **The units have health and safety committees in place formed by employees and leaders.** In countries where this topic has legal provisions, members are elected by employees to represent them. The meetings are held monthly, when the topics are defined and decisions are made, with the participation of company leaders. [GRI 403-4](#)





## DATA PREVENTING ACCIDENTS

GRI 103-1, 103-2, 103-3: 403 Occupational health and safety

Throughout the year, an innovative accident risk prediction model – Safety Analytics – was implemented in almost every Gerdau mill in Brazil, which uses Artificial Intelligence and Machine Learning in the company's historical data to warn about the likelihood of future accidents, so that they can be prevented.

To develop Safety Analytics, Gerdau partnered with the consulting company Deloitte, which contributed with the system's analytics tools. Gerdau made available the accumulated database it had stored, with a history of accidents, maintenance occurrences, and other data related to 11 mills, in addition to its vast experience in safety management and operation of steel industries.

The first mathematical analysis and prediction models were created in 2016. The pilot project, implemented in four mills, was conducted in 2017 and 2018, with excellent results. Subsequently, the system was made available for implementation in the company's mills throughout 2019, having already been adopted by about 11 units in Brazil and 3 in Mexico,

with implementation in Peru and the United States planned to start in 2020.

Safety Analytics offers a new round of analysis each week, incorporating the data collected up to the previous week. The information is shown in management panels containing the prediction of probable accidents for that week, and detailing the factors that aggravate the risk in each industrial plant.

The rate of correct predictions made by the system is now around 70% and tends to increase as the model incorporates new data and refines its algorithms. This use of Artificial Intelligence and Machine Learning to predict occupational accidents is an innovation on a global scale, and Gerdau has already been invited to present Safety Analytics in several forums in Brazil and abroad.

## GLOBAL SAFETY COMMITTEE

In 2019, the company resumed holding annual in-person meetings of its Global Safety Committee, which brings together Workplace Safety leaders from all countries where the company operates.



Gustavo Werneck, Gerdau's CEO, receives from André Gerdau Johannpeter, Chairman of worldsteel, the entity's health and safety recognition.

## RECOGNIZED WORK

In 2019, Gerdau received the recognition for Excellence in Health and Safety from worldsteel, the main global entity in the steel sector. The award recognized the work done by the company in reducing the number of highly severe accidents, a result that was reinforced by the attainment of the lowest accident severity rate in the company's history.



In the previous year, this meeting was held virtually. In 2019, representatives from 10 countries in Latin and North America got together in São Paulo to establish priorities and develop the area's planning for 2020.

### FATALITY IN 2019

Despite all the precautions and measures taken to ensure safe work for all employees, Gerdau unfortunately recorded one fatality in 2019, at its Wilton mill, in the United States. An outsourced maintenance employee suffered a fatal accident while cleaning a furnace.

The company conducted audits to understand the failure and make the necessary changes to avoid new risks.

In addition to this, another serious, but not fatal, accident occurred at the La Presa mill in Mexico, resulting in an amputation. Gerdau regrets the occurrences and reaffirms that the safety of employees and service providers is an absolute priority for the company.

### SAFETY DAY

The company celebrates World Day for Safety and Health at Work, promoted by the UN on April 28, every year. The celebrations include a general stoppage of activities at all plants to reflect on safety and continue with an entire week of activities coordinated around this topic. It is an event that brings employees' families into the units. In 2020, when the 20th anniversary of Gerdau's Safety Policy is also celebrated, a global contest was held, between employees and family members, to choose a new logo for Gerdau's Safety System.



Global Safety Committee  
Meeting — Araçariçuama (SP)



# CONNECTED CUSTOMERS

Gerdaud wants to place its customers even more at the center of its business, increasing value creation that allows them to grow and making them stronger and more competitive. Therefore, understanding the customers’ journey, using new methodologies, such as strategic design and UX (User Experience), allows the digital transformation to become a driver of opportunities, enabling customers to accomplish what they want and in the way they expect.

Understanding the customers’ journey and their experience, commercial teams, UX designers and developers are continually delivering innovative digital solutions to the market — increasingly linked to Artificial Intelligence algorithms.

An example of the application of AI tools to a customer interaction platform is the ISA (Intelligent Steel Analysis), a project of

the special steels division to cater to customers in the automotive industry.

ISA calculates in seconds whether it is feasible to meet a demand for a new product in special steels, using thousands of references stored in a database, the history of consultations, and more than 40 technical variables to consider. Before ISA, responding to a similar query could take 10 days.



Digital interaction at a Comercial Gerdaud unit, Recife (PE)



# JUNTOS SOMOS + (TOGETHER WE ARE+)

GRI 103-1, 103-2, 103-3 Own topic: Innovation in processes and products,  
103-1, 103-2, 103-3 Own topic: Stakeholder relations

Gerdaу’s platforms for interacting with partners and customers made significant advances in 2019. *Juntos Somos+*, a loyalty program for retailers of building materials aimed at stores, salespeople, and construction professionals, created by Gerdaу in partnership with Votorantim Cimentos and Tigre, is now an online platform. As such, it is already receiving a considerable number of orders from all over Brazil, both in terms of volume of quotes and sales conversions, equivalent to the movement of a brick-and-mortar subsidiary of Comercial Gerdaу.

In all, 22 companies are already participat-



ing in *Juntos Somos+*: the three founders plus Santander, Getnet, Suvinil, Portal Solar, Vedac-it, Corfio, Renove Já, Eternit, Bosch, Ouroulux, Assa Abloy, Marluvas, Henkel, Ciser, Schneider Electric, Brasforma, Instituto da Construção, Linx, and Casa do Construtor.

The program works as a benefit plan for stores, salespeople, and construction professionals. When purchasing products from participating companies, they earn points that can be redeemed for prizes, including forklifts, computers, management systems, professional courses, and other benefits. *Juntos Somos+* is today an independent company with Gerdaу as a partner, and plans to invest in the expansion of the program and in the improvement of its digital ecosystem, which can be accessed through the website [www.juntossomosmais.com.br](http://www.juntossomosmais.com.br) y también por las aplicaciones.

- ✔ More than 70,000 registered stores
- ✔ More than 400,000 registered professionals
- ✔ More than 60 dedicated employees
- ✔ R\$ 50 million will be invested in the expansion of the program by the end of 2020

FEICON Event 2019 – *Juntos Somos+* Booth

## INDUSTRY 4.0

In 2019, Gerdaу entered into an agreement with the Swedish company SKF, a benchmark in bearings, to improve productivity and reduce the number of unplanned downtime at the steel mills in Charqueadas (RS) and Araçatiguama (SP).

SKF will supply Gerdaу with bearings, remanufacturing, lubrication systems, and Wi-Fi vibration and temperature monitoring systems. In addition, the company will analyze, in its Rotating Shaft Performance Center in Brazil, data on critical machines from these two mills. The results of the analyses will allow Gerdaу and SKF to better plan maintenance and correct any machine failures.

## INNOVATIVE AFFILIATES

Gerdaу participates as a sponsor industry in the start-up acceleration program FIEMG Lab 4.0, of Federação das Indústrias do Estado de Minas Gerais. Fifty indtechs, the name given to technology-based businesses for the industry, were selected to participate in the 2019/2020 cycle of the 12-month program, starting in July 2019.

The indtechs chosen work with technologies such as big data, Internet of Things, cloud computing and biotechnology. The sponsoring industries, such as Gerdaу, participate in FIEMG LAB 4.0, having the program as one of their open innovation platforms and offering startups their know-how, their strategic information, their structure for industrial tests, and their financial resources (*learn more about the Gerdaу Challenge FIEMG Lab 2019 in the Who we are section*).



## 20 YEARS AT THE NEW YORK STOCK EXCHANGE

In March 2019, Gerdau celebrated the 20th anniversary of listing its shares on the New York Stock Exchange. The date was celebrated with an event, in New York, with the participation of CEO Gustavo Werneck, company directors, and close to 80 analysts and investors. At the event, an app was launched that allows a virtual tour of Gerdau's mills. Company executives also closed the NYSE stock market with the traditional closing bell.

## PROXY VOTE

## RECOMMENDATION AGENCIES

In 2019, Gerdau engaged two proxy vote agencies, Glass Lewis and ISS. Both agencies recently made assessments of the quality of the company's governance. This type of agency works as a consultancy for minority shareholders, making positive or negative recommendations for voting in the proposals presented by company administration to the General Meetings of publicly-held companies.



Gerdau's administration submitted a letter of clarification to both agencies about the governance standards adopted by Gerdau and the policies in place on topics such as management remuneration, risk management, adoption of ESG criteria in corporate management, and policies on diversity that have been practiced internally and in selection and recruitment programs.

## DISCLOSURE

In line with its action plan, as of the third quarter of 2019, the company started to inform the market about initiatives and advances in environmental, social and governance (ESG) topics. In addition, Gerdau increased disclosure of information in its earnings conference calls, based on requests from investors.

Gerdau Day  
New York 2019

## SHARING WITH THE INDUSTRY

GRI 102-13

Gerdau is present in the most representative associations in the business and steel sectors to offer its contribution and learn from its peers in the market:

- ✓ World Steel Association (worldsteel)
- ✓ Alacero (Latin American Steel Association)
- ✓ Instituto Aço Brasil (IABr)
- ✓ Instituto Brasileiro de Mineração (Ibram)
- ✓ Instituto de Estudos Empresariais (IEE)
- ✓ LIDE (Grupo de Líderes Empresariais)
- ✓ Movimento Brasil Competitivo (MBC)
- ✓ Instituto Millenium
- ✓ Instituto de Estudos para o Desenvolvimento Industrial (IEDI)
- ✓ Federação das Indústrias do Estado de Minas Gerais (FIEMG)
- ✓ Federação das Indústrias do Estado de São Paulo (FIESP)
- ✓ Federação das Indústrias do Estado do Rio Grande do Sul (FIERGS)
- ✓ Amcham
- ✓ Associação Brasileira das Companhias Abertas (Abrasca)
- ✓ Associação Brasileira de Comunicação Empresarial (Aberje)
- ✓ Indústria Brasileira de Árvores (Ibá)



## INTERACTIONS WITH GOVERNMENTS AND PUBLIC OFFICIALS

GRI 103-1, 103-2, 103-3 419: Socioeconomic compliance



In its business and activities, Gerdau complies with a series of tax, environmental, legal, and regulatory obligations that involve public officials. The company defines in the Corporate Guideline on Relationship with Public Officials how such contacts should occur and the precautions that must be taken to ensure that the relationship always takes place properly and in compliance with the law, either directly or through a representative.

Brazil Steel  
Conference 2019

Our employees have an obligation to strictly comply with the anti-corruption and anti-money laundering laws in force in their operations. All of them, as well as representatives acting on behalf of Gerdau, are prohibited from offering, promising, making, authorizing or providing (directly or indirectly, through third parties) undue advantages, payments, gifts or transfer of anything of value for any person, whether public official or otherwise, in order to illegally influence or reward any official action or eventual decision of such person for the benefit of Gerdau.

Employees and third parties who represent us must always adopt maximum discipline in complying with anti-corruption and anti-money laundering laws, our rules, and the laws in general that govern the relationship with the government.



Gerdau Biocenter  
Germinar — Ouro Branco (MG)

*FOCUS ON SUSTAINABILITY*

*SOCIAL TERRITORY*

*ENVIRONMENTAL ACTIONS*

**SOCIAL AND  
ENVIRONMENTAL  
PERFORMANCE**





#### ENTREPRENEURSHIP AND HOUSING

Gerdau believes that working in network is better and more effective than conducting individual initiatives. This is how Lab Habitação works, managed by Gerdau and which has a partnership with companies and NGOs (*learn more on page 70*).



#### ENTREPRENEURSHIP AND RECYCLING

The company supports initiatives aimed at recycling materials while improving the quality of life of the population that works with recycling (*learn more on page 71*).




#### ENTREPRENEURSHIP AND EDUCATION

The topic of education has always been present in Gerdau's social projects and is currently responsible for the great voluntary engagement of the company's employees (*learn more on page 71*).



## FOCUS ON SUSTAINABILITY

For Gerdau's Social Responsibility area, 2019 was the year to start materializing the strategy change decided at the end of 2018.


The company's actions in this regard are under a broader umbrella of a sustainability strategy, also built in 2019, which encompasses social, environmental, and diversity issues. The strategy was summarized in a Sustainability Manifesto and an ESG (Environmental, Social and Governance) scorecard that will be used to monitor and evaluate the fulfillment of the strategy and the attainment of its goals. This section addresses the social and environmental dimensions of the sustainability strategy; Gerdau's commitment to diversity is covered in the Our relationships section. See Gerdau's Sustainability Manifesto at <https://www.youtube.com/watch?v=NR4mIAiCi8E> 

### AN ACTION PLAN

Approved by the Board of Directors in October 2019, an Action Plan for topics on sustainability (or ESG) determined that, as of the

third quarter of the year, Gerdau would begin to inform the market of initiatives and advances in environmental, social and governance issues.

In February 2020, the Board of Directors unanimously approved the company's Sustainability Policy, Materiality Matrix, and ESG Dashboard.

**The Materiality Matrix** — formed by topics that reflect significant impacts, both environmental, and social and economic, on the company's activities, products, services, and business relationships — was built in 2019 to substantiate this report and the company's strategies and initiatives related to sustainability topics (*learn more about the Materiality Matrix and the GRI (Global Reporting Initiative) criteria, which will be adopted as a standard as of 2019, in the About the report section*). 



ESG SCORECARD

Based on the Materiality Matrix developed in 2019 (learn more about this matrix in the About the report section), an ESG (Environmental, Social and Governance) scorecard, was created. The ESG scorecard is a monitoring tool that includes the main sustainability indicators to be monitored by Gerdau's management. This scorecard will also be the basis for the company to define its sustainability goals in the future.

**The ESG Dashboard** (scorecard) is a monitoring tool in the environmental, social, health and safety, diversity, and governance dimensions. The Dashboard will be monitored by the Strategy and Sustainability Committee and the Board of Directors in order to assess the company's progress in meeting its sustainability goals.





At the February 2020 meeting, the Board of Directors was also informed about the current status of the Sustainability Action Plan (ESG), including updates on the disclosure of information related to climate change, Gerdau's commitment to adhere to the Carbon Disclosure Project (CDP) in 2020 and, adherence as a member of the Sistema B Movement Builder. [GRI 102-12](#)

In the same vein, in 2019, we set out on our certification journey as Empresa B (Company B), a global recognition granted by the non-profit organization B Lab to companies that seek, through their activities, not only to achieve economic and financial results, but also to generate a positive impact on society. The company is on its way to obtaining the certification for its Brazilian operation by the end of 2021.

Gerdau was also invited to join Movement Builders, a group of multinational companies that contribute to the growth of the Sistema B movement.

The Carbon Disclosure Project is an international NGO that encourages companies, cities and other organizations, public or corporate, to report data on their environmental performance, from which it conducts risk assessments and analyzes opportunities and critical environmental impacts that can be used by investors, companies, and public administrators in decision-making.

See here the ESG Scorecard with the corresponding dimensions and indicators.

DIMENSION	INDICATORS
 Environmental	Greenhouse gases by volume of steel (tCO <sub>2</sub> /t steel)
	Water consumption (m <sup>3</sup> /t steel)
	% reuse of co-products
 Social	% of active volunteers
	Number of people benefited
	% of social investments made in relation to gross profit
 People	% of women in leadership positions
	% of women in the company
	% of blacks in leadership positions
	% of PwDs in the company
	Health and safety index (severity rate)
 Governance	ICVM 586 – Brazilian Corporate Governance Code
	ISS – Institutional Shareholder Services
	EVA – Economic Value Added (managerial information)
	DVA – Value added statement (R\$ million)
	Personnel
	Taxes, fees and contributions (R\$)
	Remuneration of third-party capital (R\$)
	Return on equity (R\$)





Gerdau, in partnership with TETO, supports the construction of emergency houses in needy communities

## MAP OF IMPACTS

GRI 102-15

In 2019, Gerdau initiated a diagnostic of the systemic impacts of its corporate decisions. This work uses the Sistema B methodology and maps the interests of diverse audiences, taking into account workers, community, governance, environment, and customers.

One of the most important challenges facing the company in this regard is the inclusion of social and environmental variables in the decision-making process. As an advance on this topic, Gerdau expresses its willingness to set goals and assess the performance of employees based on financial and non-financial variables.



## SOCIAL TERRITORY

GRI 103-1, 103-2, 103-3 Own topic: Stakeholder relations

The Social Responsibility strategy that the company works to implement, through the Gerdau Institute, focuses on entrepreneurship, in three areas:

- ✓ Housing
- ✓ Education
- ✓ Recycling

Gerdau believes that the entrepreneurial spirit of the founders and their successors made the company what it is today. Entrepreneurship thereby takes on the role of inducing social transformation toward a more just and sustainable society, and as a driver to empower people who build the future.

In addition to the areas Gerdau selected for its social activities, the company is committed to sustainability initiatives in the Social Responsibility area and that involve external partners such as: UN Global Compact,

Sistema B, Capitalismo Consciente, a hub for Circular Economy, and Centro de Intraempreendedorismo. [GRI 102-12](#)

In 2019, a total of 64,500 people benefited through a total social investment of R\$ 18.5 million in 400 social projects. The number of volunteers working on these projects totaled 6,400.

[GER-2 Own topic: Stakeholder relations](#)

### GERDAU IN THE GLOBAL COMPACT

In August 2019, the company formalized its adherence to the United Nations (UN) Global Compact, making a commitment to be a more sustainable company, adhering



Gerdau, in partnership with the NGO Teto operates in the construction of emergency houses

### COMMITMENTS





to the principles and the 17 Sustainable Development Goals (SDGs) of the Global Compact (*read more about the SDGs and Gerdau in the About the report section*).

The Global Compact is the largest corporate sustainability initiative in the world, with more than 13,000 members in approximately 80 local networks covering 160 countries. Brazil has the third largest network, with almost 800 members.

## ENTREPRENEURSHIP AND HOUSING

Gerdau believes that working in network is better and more effective than conducting individual initiatives. This is how Lab Habitação works, an initiative managed by Artemisia and Gerdau, in partnership with Instituto Vedacit, Tigre, and Votorantim Cimentos and with the support of Caixa Econômica Federal and Conselho de Arquitetura e Urbanismo do Brasil. This alliance of leading names in civil construction supports Artemisia — an organization aimed at fostering social impact businesses — in its mission to find, map and accelerate entrepreneurs across Brazil who lead high impact startups related to housing challeng-

### TETO AND HABITAT PARA HUMANIDADE

Other partnerships in the housing area are with NGOs Teto and Habitat para Humanidade, both of which support people in situations of social vulnerability. Gerdau gives its employees the opportunity to volunteer for these social entities. A total of 14 houses were built and renovated in 2019, with the participation of 136 volunteers.

es, such as renovation, access to water and sanitation, training of professionals, among other fronts take innovation to civil construction.

In 2019, a total of 14 of these promising and innovative businesses were chosen from more than 490 businesses evaluated, to complete an acceleration journey at Lab Habitação: Innovation and Housing. At the end of the journey, three projects stood out; the startups responsible for these projects were chosen to receive seed capital contribution as support for the development of the solutions offered. They are:

✓ **Arquitetos da Vila** — from Belo Horizonte (MG). The social impact business was created by Wanda Reis and Lucas Vasconcelos to renovate low-income communities with

quality, fair prices, the possibility of financing and adequate terms, improving the living conditions of residents at an affordable cost. ([www.instagram.com/arquitetosdavila/](http://www.instagram.com/arquitetosdavila/))

✓ **Se Vira, Mulher!** — from São Paulo (SP). Thais Nobre and Edna Braga had the idea of training socially vulnerable women to make minor repairs at home. The startup they founded offers mini-courses in renovation and maintenance in carpentry, electrical installations, plumbing, gardening, painting and wallpaper, wall and flooring, and mechanics, supported by partnerships with companies and organizations. (<http://seviramulher.com>)

✓ **Revolusolar** — from Rio de Janeiro (RJ). Promotes sustainable development in low-income communities through solar power installations, professional training for installers, and educational activities. Eduardo Avila and Juan Cuervo, the founders, want to encourage good habits in terms of energy consumption and support the local economy. (<http://revolusolar.com.br>)



Lab Habitação

### GERDAU BUILDERS — ACCELERATE TO TRANSFORM

Gerdau and Endeavor created Gerdau Builders, an acceleration program for startups in a scale-up stage, focused on civil construction and recycling. Nine impact businesses in these two areas were selected to undergo a journey involving mentoring, workshops and contacts with Gerdau executives and mentors from the Endeavor network. The purpose of the program is to help the selected startups accelerate their growth and generate a scalable and innovative impact on the construction and recycling sectors.



## ENTREPRENEURSHIP AND RECYCLING

✓ **Prólata** — Gerdau supports the Prólata project of the Brazilian Steel Packaging Association (ABEAÇO – Associação Brasileira da Embalagem de Aço), created to provide technical and management support to recycling cooperatives in Brazil. In 2019, a total of 415 people benefited from the project.

✓ **Pimp Nossa Cooperativa** — The goal of the project, conducted in partnership with the organization Pimp My Carroça (in loose translation: Pimp My Cart), is to repurpose the space of recycling cooperatives by transforming their walls into artistic murals, a joint organization effort, painting of safety signage, and conversation rounds between the volunteers who participate in the activity and members of the cooperative. In 2019, a total of 58 Gerdau volunteers were involved in the joint efforts, benefiting 57 waste pickers. The mission of Pimp my Carroça is to remove pickers of recyclable materials from social invisibility, promote their self-esteem, and raise awareness of society for this cause.

## ENTREPRENEURSHIP AND EDUCATION

Gerdau's social responsibility actions include the topic of Education, which has been a focus of the great voluntary engagement of company employees. They donate hours of their time to participate in the education of young people, as instructors in the programs that Gerdau has in place in partnership with Junior Achievement.

The programs promote an entrepreneurial vision and preparation for the job market for students at school age. In 2019, in addition to execution of the project by the 74 company volunteers, Gerdau supported the development of an app to digitize the content of the program. The tool includes support material for mentors, a game, the student's journey, and classroom material. 509 students were benefited.

In addition to initiatives in Brazil, Gerdau supports technical schools in Argentina and Peru, aimed at preparing young people for

the job market. Students complement school education with practical training at Gerdau units in these countries.

## GERDAU TRANSFORMA

It is a project conceived by Gerdau focused on developing entrepreneurs who already own business or have ideas. The target are informal or self-employed entrepreneurs, who participate in a short 30-hour course with 10 learning modules. Each of the modules generates definitions and goals, and the end product of the course is an action plan for opening the business. In 2019, through its own and adaptable methodology, 12 classes were taught in the State of Minas Gerais, focusing on low-income people to create or develop businesses. Results measured after the 3-month of course indicated that 75% of the 227 people trained are still in business, with an average increase in income of 53%.



Gerdau Transforma



Gerdaу Volunteers —  
Pimp My Carroça



## AN ARMY OF VOLUNTEERS

The performance of employees in social projects supported by Gerdaу, transferring knowledge and seeking intelligent solutions to the problems of the communities where the company operates, is one of the ways in which the company contributes to greater equality of opportunities and materializes its purpose: to empower people who build the future. Volunteers make time and talent available to help improve the quality of life of people and socially vulnerable groups. Gerdaу ended 2019 with 6,400 volunteers among its employees. In the company's operations in Brazil, nearly 23% of the professionals — almost one in four — do volunteer work.

Reaffirming its commitment to the communities where it operates, Gerdaу also holds an annual meeting with social entities and other partners to present its social strategy and guidelines for the work plan for the following year. In this context, each Business Operation assesses and defines which projects and causes will be supported, in line with the social strategy developed by the company.



MM Gerdau — Museum of Mines and Metal, Belo Horizonte (MG)



### MM GERDAU

The Museum of Mines and Metal (MM Gerdau) hit the mark of one million visitors in 2019, a year in which it also had more visitors in its almost decade-long history. Opened in 2010, MM Gerdau is located in the historic Praça da Liberdade, in Belo Horizonte (MG). It is a science and technology museum sponsored by Gerdau, through the Federal Culture Incentive Act, with the support of the Brazilian Metallurgy and Mining Company (CBMM — Companhia Brasileira de Metalurgia e Mineração).

The museum tells the story of mining and metallurgy in 44 permanent exhibitions. It also receives temporary exhibitions, scientific lectures and varied activities, with a special program for children and the elderly.

✓ **241,787 visitors at MM Gerdau in 2019**

✓ **59.5% more than in 2018**



Gerdau scrap yard



In 2019, Gerdau recycled more than 11 million tons of scrap at its mills in Brazil and the Americas. In other words, 73% of the steel produced by Gerdau uses ferrous scrap as its main feedstock.

## ENVIRONMENTAL ACTIONS

### ENVIRONMENTAL ACTIONS

GRI 103-1, 103-2, 103-3 307: Environmental compliance

Gerdau has a Sustainability Policy and an Environmental Management System in place that reaffirm the company's commitment to creating value for its stakeholders and is in line with regulatory guidelines and global best practices, cascading the guidelines across the operations, detailing responsibilities and procedures to be followed.

The company manages its aspects, environmental impacts, operating permits and authorizations in order to meet the specificities of each operation and region where it operates, always taking precautions to cause minimal impact. This practice is defined as environmental compliance, a component of corporate governance that represents the system of policies and actions through which the company relates to its internal audience (managers and employees) and external audience (customers, shareholders, business partners, suppliers, and government), and must be reliable and transparent.

It means fulfilling and complying with environmental requirements that may be either compulsory or voluntary, adapting business practices to meet the demands of society.

### MAXIMUM RECYCLING

GRI 103-1, 103-2, 103-3 301: Materials

The use of recyclable raw materials is becoming increasingly important. At Gerdau, thousands of tons of ferrous scrap are transformed into new products every day.

Gerdau has partnerships with regional traffic agencies to recycle abandoned or discarded vehicles. The company has also been intensifying its strategy in the scrap retail market, approaching small pickers in the locations where it operates to extend its network of suppliers of raw materials. This movement makes sense not only from a business standpoint, but also has an important social impact by guaranteeing regular income for pickers who are beginning the process of collecting and processing ferrous scrap, activities that generate hundreds of jobs.

**The use of ferrous scrap as feedstock in semi-integrated mills has positive effects in mitigating climate change: it saves natural resources, reduces energy consumption and greenhouse gas emissions. Data from the World Steel Association indicate that one ton of steel produced from recycled ferrous scrap means reducing greenhouse gas emissions by 1.5 ton.**



Consumption of materials from recycling (tons) GRI 301-2

Pig iron (internal and external)



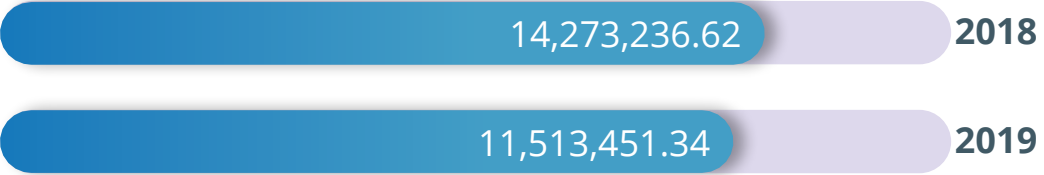
Alloys



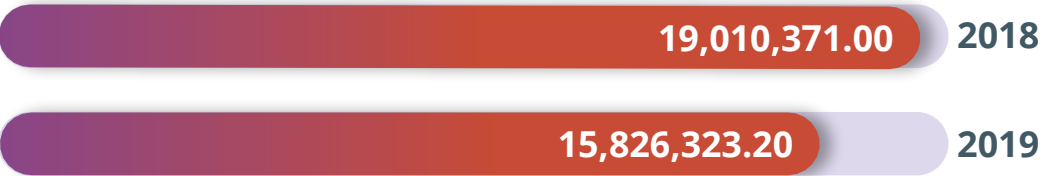
Reducing agents



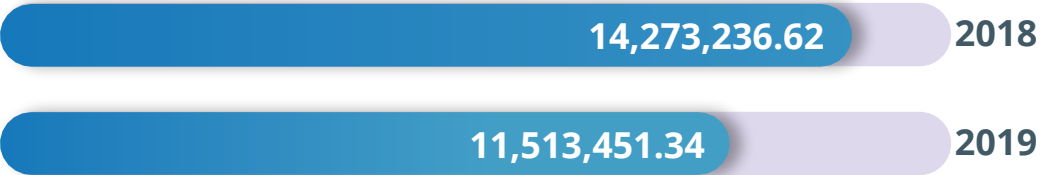
Scrap



Total raw material consumed in the period

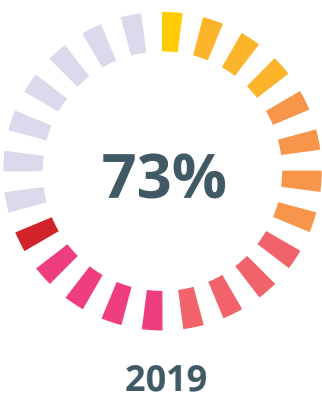
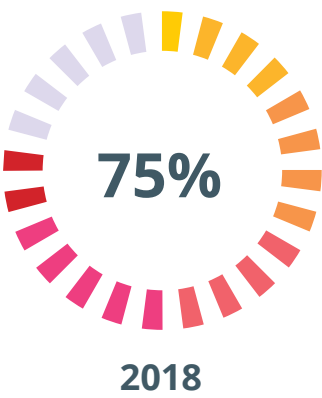


Total raw material from recycling (scrap)



**Note:** This indicator was calculated based on total consumption of the following raw materials: pig iron, alloys, reducing agents, and scrap.  
**Scope of the indicator:** The operations in the Dominican Republic were not considered, since the operation does not produce steel, and in Venezuela, since we do not have consistent data for all indicators.

Percentage of recycled materials used



There was a 19% reduction in steel production in 2019 compared to 2018, resulting in a reduction of 2 percentage points in the volume of recycled materials used in all operations and a 19% reduction in specific consumption of scrap.

WATER REUSE

GRI 103-1, 103-2, 103-3 303: Water and effluents, 303-1, 303-2

Conservation and maximum usage of water are also important concerns for Gerdau, since this is a vital input for the company's operations, which makes it even more fundamental to reduce usage and increase reuse of water throughout the value chain. Water management is part of Gerdau's strategy, and the company continually invests in efficient water recirculation programs, contributing to reducing withdrawal of new water, the volume of effluents, and the environmental impact of discharging these effluents by the operations.

As an important natural resource for our industrial operation and for society, water and effluents are evaluated in the survey of aspects and impacts, in the practices of the environmental management system, and as a relevant factor in risk management scenarios.

Gerdau's sustainability policy states that the use of water in its process must be carried out by maximizing its reuse and discharging minimum volume of effluents. All company units comply with the legislation and regulations in force for withdrawing water and discharging effluents. The goals

related to this topic are established in the internal management of each unit. The diagnostics initiated in 2019, which will be completed in 2020 at the units in Brazil, will help identify opportunities and establish goals for 2021.

Gerdau units are audited in terms of the company's environmental management systems, compliance with legal requirements, and continuous improvement. A diagnostic of the water resource management systems of the units in Brazil was initiated in 2019, involving environmental and utility teams. The purpose of this work is to identify opportunities to reduce water consumption and improve the performance of water and effluent treatments.



Also in 2019, utility leaders and environmental specialists in Brazil were trained in best water and effluent management practices, with more than 800 hours invested in training. Data concerning investments in water resources were not collected for 2019.

As an example of the success of Gerdau's work at the Divinópolis unit, improvements were made to reuse part of the effluent from the blast furnaces in other stages of the process, increasing reuse of 2,784 m<sup>3</sup> of water at the unit.

The company has been making continuous efforts to quantify consumption, sources, and destination of water resources. Gerdau's environmental management system provides for failure treatment in cases of non-compliance. In this process, which is managed by the leadership of the units, causes of problems are analyzed and plans for correction and improvement are defined. Gerdau units are audited in terms of the environmental management system, compliance with legal requirements, and continuous improvement.

[GRI 103-1, 103-2, 103-3 303: Water and effluents, 303-1, 303-2](#)

### **Gerdau monitors water use and has water reuse and recirculation systems in its mills.**

#### **In this way:**

- ✓ **97.6% of the water used in production is reused**
- ✓ **51.1 million m<sup>3</sup> were withdrawn in 2019**
- ✓ **3.2% increase in water withdrawal in operations during the year**



Gerdau Germinar Biocenter —  
Ouro Branco (MG)





Rivers and springs are preserved by the more than 91,000 hectares of native forest conservation maintained by Gerdau in Minas Gerais

The substances that are considered a priority in monitoring and treating effluents differ between countries and operation process, in accordance with current legislation. In 2019, a total of 39 incidents of non-compliance with the discharge limit were recorded. These incidents are handled according to the environmental management failure treatment.

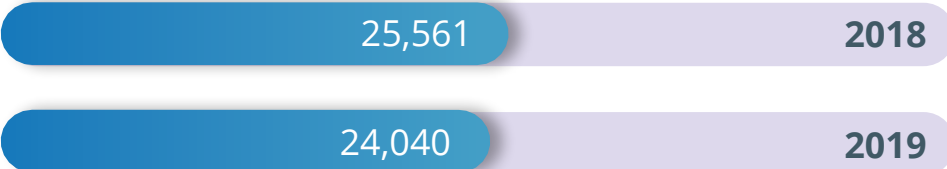
Water consumption (megaliters) GRI 303-5

All areas

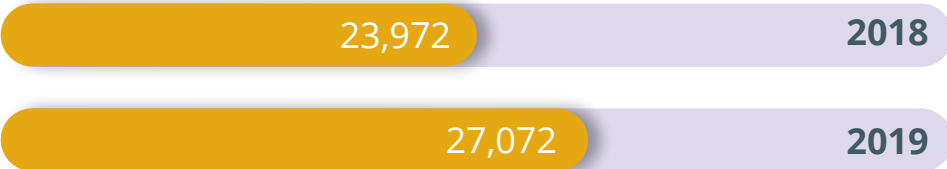
Total water withdrawn (303-3)



Total water discharged (303-4)



Total water consumed (303-5)



Areas with water stress

Total water withdrawn (303-3)



Total water discharged (303-4)



Total water consumed (303-5)



**Note 1:** The scope of indicators 303 does not include operations in Venezuela.  
**Note 2:** The operations were classified in areas with water stress according to the Aqueduct Water Risk Atlas. — <https://www.wri.org/resources/maps/aqueduct-water-risk-atlas>



Road paved with  
Gerdau's co-products



**In 2019, Gerdau generated nearly 6.5 million tons of waste and reused 78% of these materials internally or in external partnerships, which means an opportunity of 22% yet to be achieved using new treatment and transformation technologies.**

## REUSE OF WASTE

GRI103-1, 103-2, 103-3 306: Waste

The steel industry normally generates a significant amount of waste in its processes. All of this material secondary to steel production must have a destination. This waste can be transformed into new products that should be used in other processes: paving material and inputs to produce ceramics and cement, for example. These are referred to as co-products.

In 2019, Gerdau put together a Research & Development area with a trained team to work on this line of technological advances and development of new alternatives for co-products. Based on the pillars of sustainability and circular economy, this new area has the important challenge of analyzing the production chain in order to reduce generation of industrial waste, qualifying it as co-product to be recycled and reused internally in Gerdau's processes and mills, and externally in third-party processes through innovative solutions, in addition to the traditional ones already adopted by the market. These developments generate not only environmental, but also financial benefits, increasing the use of the co-product generated, preserving natural resources,

saving energy, and reducing or eliminating the need to dispose of value-added materials in landfills and even generating revenue with certain uses/applications. Gerdau classifies waste as follows:

- ✓ **Reclaiming, which includes reusing, recycling, and recovery**
- ✓ **Disposal, which includes incineration, on-site storage, and landfill**

The organization is working to improve its controls in order to have more details on the disposal methods. In 2019, there was an increase in waste generation, despite the decrease in production. However, reclaiming increased significantly, mainly in special steels. Another reason for these differences was the shipment of items in stock and a great effort by the organization to send its waste to be reclaimed. **GRI 306-2**

## REUSE AND REUTILIZATION

In 2019, with the support of technical experts from the operating areas and the engagement of everyone in the search for more sustainable environmental solutions, Gerdau's mill in Ouro Branco (MG) began to reuse limestone, a waste from our calcining plant. This co-product comes from the calcining plant dedusting system. During the journey, samples and feasibility tests were conducted, as well as studies on how to effectively load and mix it into the sinter.

After this study, it was possible to formulate an ideal waste mixture to be reused in sintering for production of sinter, with savings of approximately R\$ 3.6 million in 2019 alone, considering that the waste was not disposed of in landfills.



The main risk associated with generation of waste in operations is the environmental impact of waste piles of these materials. This risk is mitigated through robust environmental controls, involving the vegetation cover of the piles as they are formed, construction of robust structures for treatment of water effluents, and through a modern monitoring system for air emissions. [GRI G4-MM3](#)

Tailings are disposed of in containment dams that have associated risks of rupture, mitigated by a strong monitoring system with high level of automation, permanent field team, and regular specialized external audits. Management of mining dams also relies on a sophisticated emergency management system. [GRI G4-MM3](#)

### COMPLIANCE

Operations in Brazil, the Dominican Republic, Venezuela, and Peru, had no significant cases of non-compliance with environmental laws and regulations. In 2019, CONAGUA conducted an inspection visit to the Tultitlán unit to determine the status of the wastewater discharge permit. This did not result in a significant fine; however, the case remains a priority given the nature of its relevance to guarantee the mill's operation in terms of water. [GRI 307-1](#)

At the UPRC Guadalajara Unit, a fire broke out on December 31, 2019, leading to temporary shutdown. Based on a possible impact on the environment, an environmental fine was imposed for violation of the municipality's environmental law. In North American operations (GSN, GLN), all non-conformities are considered significant, and two fines were received in 2019. [GRI 307-1](#)



Gerdau employees  
in the United States





Gerdau  
Araçatiguama (SP)

## ENERGY

GRI 103-1, 103-2, 103-3: 302 Energy

Gerdau's energy efficiency management is based on an ongoing search to improve energy use and raise awareness of industrial users. This management is based on the reliability of energy consumption data, mapping consumer areas and opportunities in projects and initiatives in this regard. The company believes that energy management is one of the important pillars for the continuous economic and sustainable growth of the business.

A good example of this management was the Cosigua unit project, where the Aliança Program was implemented in partnership with CNI. Several initiatives have been studied and modeled mathematically in order to identify possible gains in reducing energy consumption. A detailed inspection at the unit identified, for example, points of leakage of compressed air, and the correction of 61% of these items generated annual savings of R\$ 1 million.



The Ouro Branco unit has an area dedicated to energy management, and one of its objectives is to maximize the use of energy from the fuels generated in the process. The unit's team uses energy management software to control and monitor consumption online. It is also possible to predict energy consumption according to the planned production, thanks to the mathematical modeling software. All areas have energy efficiency indicators controlled and monitored by the production teams. Since energy efficiency management is an ongoing improvement effort, goals and projects are established annually. The 2019 project at the Ouro Branco unit generated gains of approximately R\$ 25 million, in addition to more effective energy use and a consequent reduction in greenhouse gases.

GRI 103-1, 103-2, 103-3: 302 Energy

Total energy consumption in 2019 (GJ) GRI 302-1

Total fuel consumption from renewable sources



Total fuel consumption from non-renewable sources



Electricity consumption



Energia elétrica vendida



Total energy consumption within the organization



**Note:** Fuels consumed: renewable: charcoal and electricity. Non-renewable: natural gas, gas resulting from the production process (blast furnace gas, steelmaking gas, coke oven gas), diesel, LPG, petroleum coke, coke resulting from the production process (coke analog, metallurgical coke), mineral coal, pig iron, anthracite, dolomite, residual fuel oil. Both energy consumption and electricity consumption were in line with consumption of companies in the same sector.

Ouro Branco Mill (MG)





## THE ENVIRONMENT AS A STRATEGY

In 2019, Gerdau made important advances toward maturing the strategic management of environmental issues, incorporating them into the company's planning tools and systemically addressing this topic.

Environmental issues were relevant in redefining the company's long-term strategy and in the new corporate risk management structure, in which mitigation of risk factors related to the environment was prioritized for the allocation of resources and time from the company's entire governance and management structure.

Gerdau's search for a new standard in environmental issues led to the decision to incorporate indicators and goals into the operating parameters through an ESG scorecard. The indicators will be monitored by the Board of Directors and by the Strategy and Sustainability, Risk and Disclosure Committees with previously defined frequency.

This puts Gerdau at the forefront of the increasingly strong movement to raise

awareness on environmental issues, perceived both inside and outside the company, based on the growing demands of customers, investors, and society for information and response to these issues.

In general, it can be said that environmental management became stronger in 2019, being assessed based on the risks and opportunities for the company. The environmental topic starts to be treated beyond those specific issues limited to each production unit, but also as a strategic issue in decision making by senior management.

Renewable eucalyptus  
forests in Minas Gerais





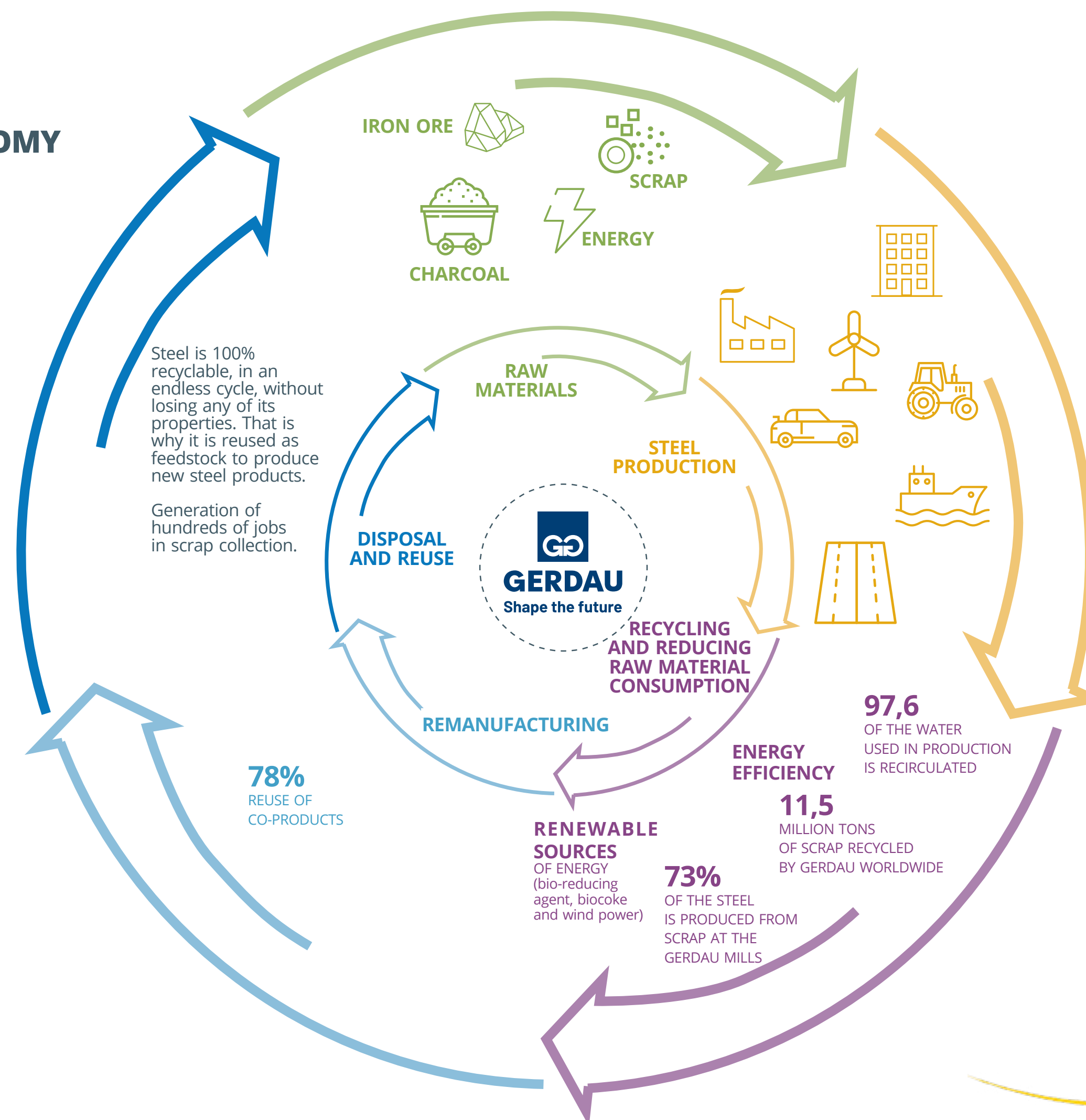
## CIRCULAR ECONOMY

Gerdaud has adopted the principles of circular economy as part of its sustainability strategy. In this way, the company works to optimize the use of natural resources, encourages the use of recyclable raw materials — in particular ferrous scrap — and reuses waste in the form of co-products. The strengthening of the circular economy will improve the way of viewing the relationships between markets, customers, and natural resources.

### IN-HOUSE RAW MATERIALS

Gerdaud, Sumitomo and JSW, members of the Joint Venture Gerdaud Summit at the Pindamonhangaba mill, began to develop the Green Rolls project, an initiative to track rolling mill rolls throughout their useful life, bringing them back and recycling them as scrap, in the form of feedstock. This initiative is also intended to redesign the product, with lessons learned from the recycling process.

## STEEL LIFE CYCLE AND CIRCULAR ECONOMY AT GERDAUD





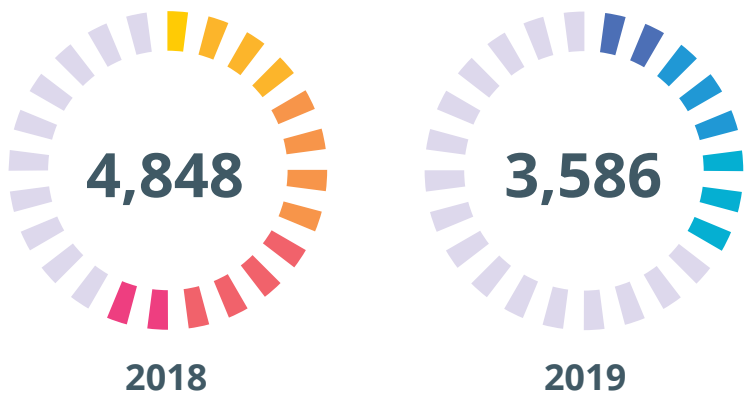
AIR EMISSIONS

GRI 305-7

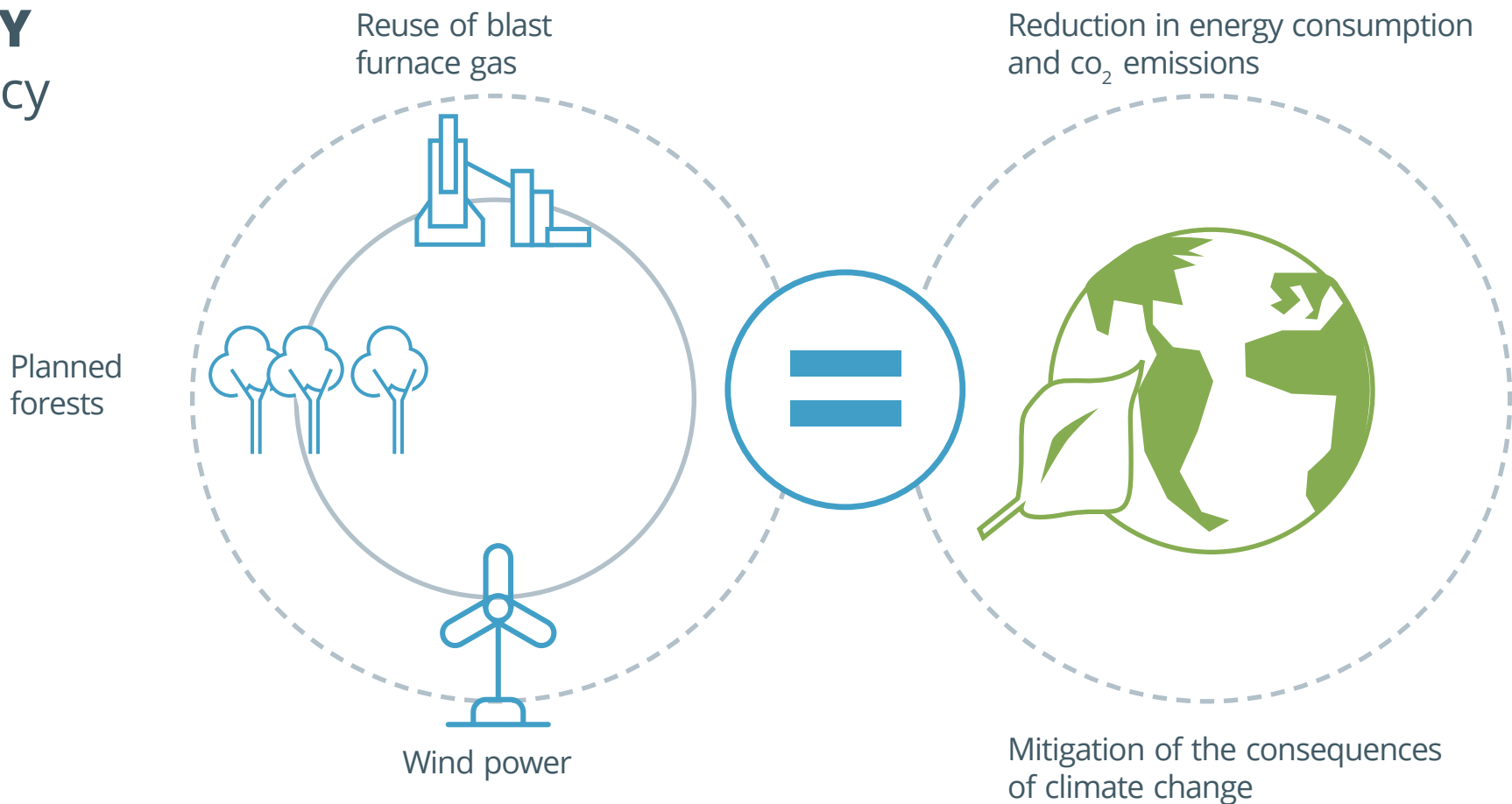
Other systems to improve the environmental conditions of the mills and their surroundings include dedusting equipment for air emissions. With the routine monitoring of these systems, it is possible to evaluate the efficiency of their operation, managing possible impacts on the surroundings where they are installed. Much of the reduction in particulate matter is due to investments and improvements in operation and maintenance of dedusting systems.

Other air emissions (ton) GRI 305-7

Particulate matter



ENERGY Efficiency



**Note:** Scope of the indicator: 'GAB: Açonorte, Araçariguama, Barão de Cocais, Cearense, Cosigua, Divinópolis, Ouro Branco, Riograndense. GSB: Pin-damonhangaba, Mogi das Cruzes, Charqueadas. GLN (NorAm): Charlotte, Manitoba, Whitby. GSN (NorArm): Cambridge, Caterville, Charlotte, Jackson (M), Manitoba, Midlothian, Petersburg, St Paul, Whitby, Wilton, Fort Smith, Monroe, Jackson (T). GLM: La Presa, Tultitlan, Sahagun. GLA: Perez, Ludeña. GLO: Tuta, Muña, Tocancipá. GLP: Siderperu. GLY: Laisa. Venezuela and the Dominican Republic will not be considered for this indicator.

BIO-REDUCING AGENT

The charcoal used in some of the units in Brazil to produce steel in integrated mills (from iron ore and blast furnace) is an environmental advantage for the Brazilian steel industry. The bio-reducing agent, as charcoal is called, minimizes the environmental impact compared with mineral coal, of fossil origin, used in most integrated steel mills.

Coming from planted forests in the State of Minas Gerais, charcoal is a source of renewable energy in the steel production process in Brazil ([read more about Gerdau's planted forests in the Our business section](#)).

COMBATING CLIMATE CHANGE

Gerdau participates annually in the Emissions Trading System Simulation of Fundação Getúlio Vargas (FGV). Through this initiative, FGV and a group of Brazilian companies seek to understand how the carbon pricing instruments that have been debated internationally as alternatives to pursue the goals of reducing greenhouse gas emissions would work.

TRANSPARENCY

IN CARBON EMISSIONS

GRI 103-1, 103-2, 103-3 305: Emissions

In 2019, Gerdau announced that it will disclose its carbon emissions and other ESG (environmental, social and governance) indicators. Carbon emissions are a key topic in debating climate change and a sensitive issue for the steel industry, given the level of emissions from its plants compared with the industrial sector as a whole.

With a focus on energy efficiency, in 2019 Gerdau participated in an initiative by the Worldsteel Association — a global entity in the steel sector, to assess the energy efficiency of one of its mills and identify opportunities for energy gains. The worldsteel initiative covers the entire world, and the Gerdau plant evaluated was Cosigua, in Rio de Janeiro. The evaluators found opportunities for improvement, but, in general, it was concluded that the unit has a good energy performance.

**Gerdau's greenhouse gas emissions totaled 11,947,505 tons of CO<sub>2</sub>e in 2019. Emissions from electricity consumed (scope 2) accounted for 24% of the total, and carbon intensity was 0.96 ton of CO<sub>2</sub>e per ton of steel produced. This total is lower than the global average disclosed by the World Steel Association, at 1.85 tons of CO<sub>2</sub>e per ton of steel produced.**

Part of this result is due to the different production methods operated by the company.





The use of bio-reducing agents as the main input in the integrated steelmaking units in Barão de Cocais, Divinópolis, and Sete Lagoas benefits the environment and helps the company collaborate in reducing the emission of gases that cause climate change, since bio-reducing agents are a renewable source of carbon.

Planted forests for energy reduce the pressure of deforestation of native forests, contributing to the proper use of degraded land and observing the most modern concepts of minimum soil cultivation. Combined with best practices in resource conservation, they guarantee sustainable production and provide yet another significant service: carbon capture and storage. The scale of capture generated by increased storage in forests and the ability to maintain storage for long periods of time means that planted forests for energy contribute to combating climate change, especially over a few decades ([learn more about Gerdau Florestal in the Our business section](#)).

GRI 103-1, 103-2, 103-3 305: Emissions

The integrated process that uses mineral coal is the largest contributor of greenhouse gas emissions among Gerdau's production methods. The integrate mill using this process to produce steel — from iron ore — reuses approximately 92% of the gases generated in the production process to generate its own energy. Gerdau makes a significant contribution to mitigating the consequences of climate change by using scrap metal as feedstock. **Approximately 73% of its production is from scrap, which reduces demand for natural resources, resulting in lower energy consumption and reduction in greenhouse gas emissions.**

Gerdau's carbon intensity below that of the global steel industry average can be explained by its use of carbon from renewable forest sources, its use of scrap, and its reuse of gases, thereby reinforcing the company's commitment to mitigating the impact of climate change. We ended 2019 at 0.96 tCO<sub>2</sub>e/t of steel produced. **GRI 305-4**

Scope 1 **GRI 305-1**

Direct greenhouse gas (GHG) emissions, in tons of CO<sub>2</sub>eq

Total scope 1



Biogenic CO<sub>2</sub> emissions



Worldsteel Event 2019

Scope 2 **GRI 305-2**

Direct greenhouse gas (GHG) emissions, in tons of CO<sub>2</sub>eq

Total scope 2



**Note:** Gases included in the calculation: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, SF<sub>6</sub>, PFC and HFC. Source of emission factors: IPCC, GHG Protocol, WSA (World Steel Association). Scope of the indicator: 'GAB: Açonorte, Araçariguama, Barão de Cocais, Cearense, Cosígua, Divinópolis, Ouro Branco, Riograndense. GSB: Pindamonhangaba, Mogi das Cruzes, Charqueadas. GLN (NorAm): Charlotte, Manitoba, Whitby. GSN (NorArm): Cambridge, Caterville, Charlotte, Jackson (M), Manitoba, Midlothian, Petersburg, St Paul, Whitby, Wilton, Fort Smith, Monroe, Jackson (T). GLM: La Presa, Tultitlan, Sahagun. GLA: Perez, Ludeña. GLO: Tuta, Muña, Tocancipá. GLP: Siderperu. GLY: Laisa.



City of São Paulo (SP)

# ECONOMIC-FINANCIAL PERFORMANCE

**ECONOMIC-FINANCIAL  
RESULTS**

**RISK MANAGEMENT**



# ECONOMIC AND FINANCIAL RESULTS

GRI 103-1, 103-2, 103-3 201: Economic performance

Gerdaу’s performance in 2019 shows that the company continued to strengthen its balance sheet in order to resume growth. Three points can be highlighted:

- ✓ Physical sales of steel in the domestic market in Brazil totaled 4 million tons in 2019, which shows a sign of recovery in the civil construction segment in the country.
- ✓ The net debt-to-EBITDA ratio reached the lowest value since 2011, reducing from 1.71x to 1.67x comparing the end of 2018 with the end of 2019.
- ✓ Free cash flow reached R\$ 4.4 billion in 2019, compared with R\$ 2.6 billion in 2018.

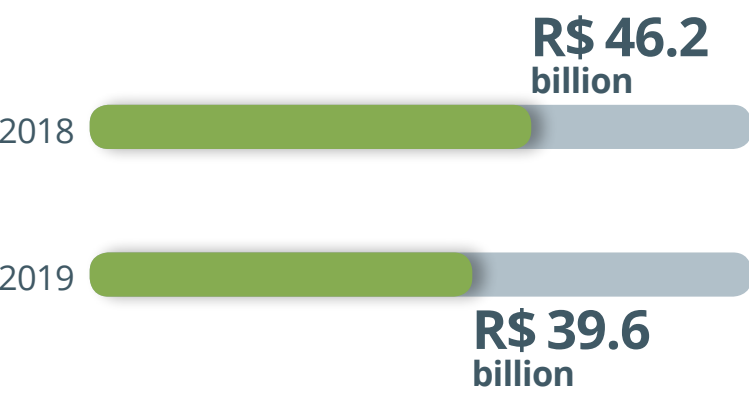
## NET REVENUE

Crude steel production in the fourth quarter of 2019 increased compared to the third quarter due to resumed operations in Blast Furnace 1 in Ouro Branco (MG), despite of the scheduled downtime in the electric melt shops (mini-mills) in Brazil.

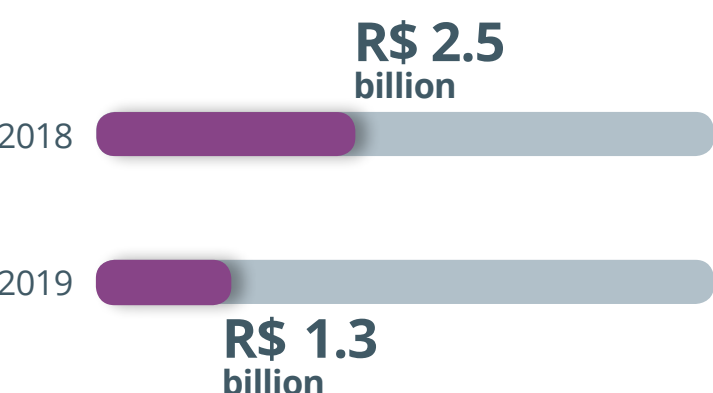
Physical sales of steel for the year, of 12.1 million tons, fell 17% compared with 2018. Total production of crude steel in 2019 was 12.5 million tons, down 18.8% over the previous year.

Gerdaу ended 2019 with R\$ 39.6 billion in net revenue, 14.1% less than in the previous year. The drop in international prices per ton of steel had a negative impact on net revenue per ton sold and was an important factor in this result.

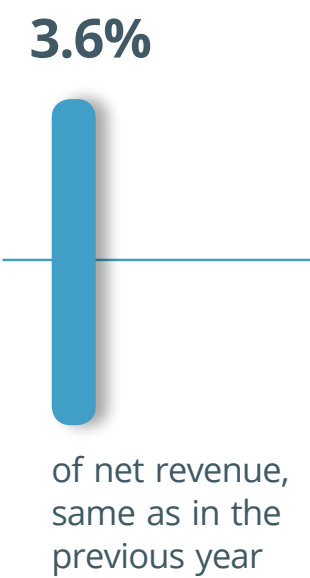
### Net Revenue



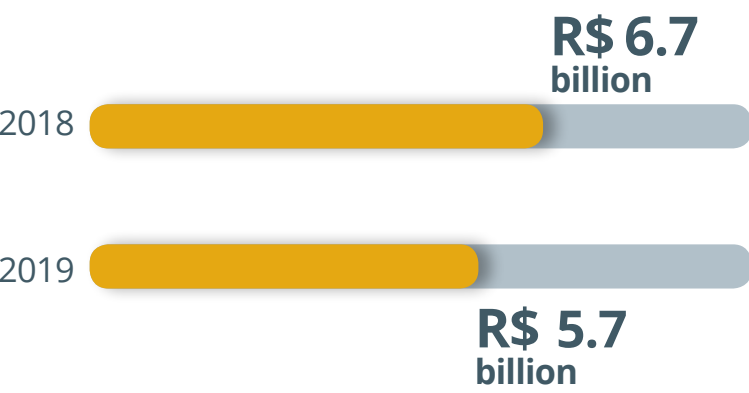
### Adjusted consolidated net income



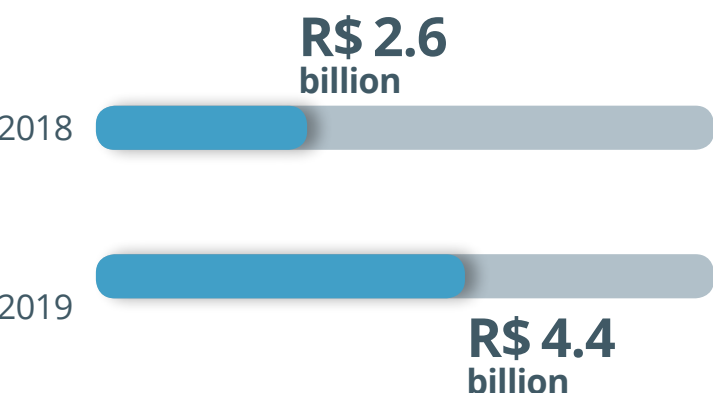
### SG&A



### Adjusted EBITDA



### Free cash flow





## EBITDA

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) for 2019 was R\$ 5.71 billion, down 14.2% over the previous year (less non-recurring effects).

## ADJUSTED NET INCOME

Adjusted net income was R\$ 1.3 billion, down 48.3% over 2018.

## SALES, GENERAL, AND

## ADMINISTRATIVE EXPENSES (SG&A)

Sales, general, and administrative expenses (SG&A) remained stable in 2019 at 3.6% of net revenue, the same as in the previous year and the best historical result for the company.

## DIVIDENDS

In aggregate for 2019, a total of R\$ 356 million was allocated to shareholders of Gerdau S.A. (R\$ 0.21 per share) and R\$ 126 million to shareholders of Metalúrgica Gerdau S.A. (R\$ 0.12 per share).

## INVESTMENTS

CAPEX investments totaled R\$ 1.7 billion in 2019, of which:

- ✓ **R\$ 797 million for general maintenance**
- ✓ **R\$ 424 million for maintenance of the Ouro Branco (MG) mill**
- ✓ **R\$ 525 million for technological expansion and updating.**

Of the total amount invested in the year, 49% went to the Brasil BD, 24% to Special Steels BD, 23% to North America BD, and 4% to South America BD.

The company's investment plan for 2020 is R\$ 1.6 billion, which are part of the R\$ 6 billion CAPEX program for the 3-year period (2019-2021).

Investments in expansion and technological updating will be made as the expectations of market evolution and generation of free cash flow for the period are confirmed.

Gerdau S.A. informed its shareholders and the market that, on November 26, 2019, its subsidiary, Gerdau Aços Longos S.A., entered into a definitive

agreement with Hierros Añón, S.A. and Gallega de Mallas, S.L. for the acquisition of 96.35% of the shares issued by Siderúrgica Latino-Americana S.A. (SILAT), located in Caucaia, in the metropolitan region of Fortaleza, State of Ceará, for US\$ 110.8 million, subject to customary adjustments in the acquisition price .

Completion of the transaction is subject to the approval from the Administrative Council for Economic Defense (CADE), as well as the assessment of other usual suspensive conditions. SILAT has an annual rolling mill installed capacity of 600,000 tons. This acquisition is part of Gerdau's strategy to better serve its customers in the Brazilian market.

## INDEBTEDNESS

At the end of 2019, the net debt-to-EBITDA ratio reached the lowest value since 2011, reducing from 1.71x to 1.67x compared with the end of 2018. On December 31, 2019, 9.7% of gross debt was short-term and 90.3% long-term. Broken down by currency, 18.4% was denominated in Brazilian real (BRL), 81.2% in U.S. dollars (USD), and 0.4% in other currencies.



Employees at the Gerdau office in the United States



The main debt indicators showed the following evolution:

✓ **The reduction in the level of the net debt/EBITDA indicator from 1.96x on September 30, 2019 to 1.67x on December 31, 2019, was mainly a consequence of the generation of free cash flow in the period.**

✓ **The nominal weighted average cost of gross debt, on December 31, 2019, was 5.5%, of which 4.7% was denominated in Brazilian real (BRL), 5.6% plus foreign exchange variation for the total denominated in U.S. dollars (USD) contracted in Brazil and 6.1% for the total contracted by subsidiaries abroad. On December 31, 2019, the average payment term for gross debt was 7.4 years, with a very balanced and well-distributed schedule over the next few years.**

## CASH FLOW AND LIQUIDITY

Generation of free cash flow of R\$ 4.4 billion increased significantly in 2019, compared with 2018, due to the strong release of working capital in the period. This stems mainly from the reduction in inventory levels of raw materials and finished products given the downtime of the electric melt shops (mini-mills) in December.

In October 2019, Gerdau renewed its Global Line of Credit in the amount of US\$ 800 million. The operation, intended to provide liquidity to subsidiaries in Brazil, the United States, and Latin America, will expire in October 2024 and can be accessed at any time by the borrowing units. On December 31, 2019, the volume withdrawn under this line of credit was US\$ 60 million.



Gerdau office in Tampa, Florida (USA)



Gerdau employees  
at the Midlothian Mill,  
Texas (USA)



## RISK MANAGEMENT

GRI 103-1, 103-2, 103-3 201: Economic performance, 201-2

Risk assessment is established by Risk Owners and the Risk Management area, considering reliable sources of internal and external information, the Risk Matrix, and the result of action plans and residual risks, and there may be new emerging risks or even dismissed risks (which are no longer likely to occur).

Gerdau, through its existing processes and instruments, acts on business, compliance, and operational risks. Business risks are those associated with the company's strategy, the political and social environment, the market, competitors, mergers and acquisitions, and availability of raw materials.

Compliance risks are related to compliance with the rules to which the company and its employees are subject. Operational risks relate to internal processes, people, and technology. Some examples of risk factors are occupational safety, environmental, financial, tax, labor, operational, strategic, social, im-

age, organizational climate, commercial, and regulatory.

The risk management structure is decentralized. It leverages and maximizes the technical knowledge and professional profile of each of the Business Divisions (Brazil BD, North America BD, South America BD, and Special Steels BD). These divisions have defined controls in place to mitigate the risks identified and regular meetings to report the results.

Gerdau establishes three lines of defense to act on relevant risks.

✓ **The first line concerns internal controls defined for critical activities, procedures and guidelines, with clear assignment of responsibilities, automated and manual controls, among others.**

✓ **The second line includes management activities, such as monitoring, evaluation, improvement of processes, and accountability.**



✓ In addition to process managers monitoring their risks, the Internal Controls and Compliance areas support the business in improving the control environment.

✓ The Compliance Area is independent, reporting directly to the Board of Directors.

✓ The Internal Controls area permanently assesses the control environment for SOX Certification.

✓ The third line of defense includes the activities of the Internal Audit, which conducts an independent assessment of the processes, regularly acting with the support of risk assessment, frequently reporting to the Audit Committee and the Board of Directors.

Taking into account the risks related to climate change and specific units that are highly relevant to the organization, as well as all business units of the group, the financial impact of a reduction of US\$ 200 million — R\$ 850 million — EBITDA in the year was defined as being of significant magnitude. This definition considers that this amount associated with risk would have an impact on cash availability for long-term investments. The company has been working to structure a Climate Management strategy to, among other actions, establish and disclose a goal to reduce emissions in 2021.

Details of risk management and the main factors to which the organization is exposed are communicated to the market, regulatory agencies (CVM and SEC) and stock exchanges (B3, NYSE, and Latibex) via the website <https://ri.gerdau.com/pt> through 20-F and Reference Form.



Employee at the Charqueadas Mill (RS)



Gerdau Office  
Sao Paulo (SP)

# GRI ATTACHMENTS





GRI 102-46, 102-47

Material topic	Definition of the material topic	Related GRI topics	GRI disclosure number and title
Diversity and inclusion	Promotion of diversity, gender equality and inclusion of minorities at different levels of the company	103: Management approach: 405: Diversity and equal opportunity	405-1: Diversity of governance bodies and employees
Management of co-products	Management of waste and hazardous materials, with a focus on reducing the impact of this waste	103: Management approach 306: Waste	306-2: Waste by type and disposal method
			MM3   Total amounts of waste, tailings, and sludge and their associated risks
Recycling of scrap	Relates to the concept of circular economy, addressing the restructuring of the production model, seeking to reintegrate materials that would be discarded by other industries	103: Management approach 301: Materials	301-2: Recycled input materials used
Water and effluents management	Risks related to water scarcity and water and effluent management, with a focus on reducing consumption and on proper disposal, with a view to maintaining the balance of ecosystems	103: Management approach 303: Water and effluents	303-1: Interactions with water as a shared resource 303-2: Management of water discharge-related impacts 303-3: Water withdrawal 303-4: Water discharge 303-5: Water consumption
Energy management	Actions to increase process efficiency and prioritize alternative energy sources	103: Management approach 302: Energy	302-1: Energy consumption within the organization 302-3: Energy intensity
Mitigation and adaptation to climate change	Actions to mitigate greenhouse gas (GHG) emissions in the operation and supply chain, in addition to planning for operation resilience and providing carbon-effective solutions to society in the face of climate change	103: Management approach 201: Economic performance	201-2: Financial implications and other risks and opportunities due to climate change
		103: Management approach 305: Emissions	305-1: Direct (Scope 1) GHG emissions 305-2: Energy indirect (Scope 2) GHG emissions 305-4: GHG emissions intensity
Innovation in processes and products	Digital transformation, with a focus on innovation in processes and products (automation, use of alternative materials, innovative products/solutions, etc.). Establishing partnerships for innovation and internal guidelines for the culture of innovation	103: Management approach Own topic: Innovation in processes and products	Own indicators



GRI 102-46, 102-47

Material topic	Definition of the material topic	Related GRI topics	GRI disclosure number and title
Occupational health and safety	Health and safety management, focusing on establishing a culture of safety, investments in infrastructure and personal protective equipment, awareness of risky activities and behaviors, care in the use of materials harmful to health	103: Management approach 403: Occupational health and safety	403-1: Occupational health and safety management system 403-2: Hazard identification, risk assessment and incident investigation 403-3: Occupational health services 403-4: Worker participation, consultation, and communication on occupational health and safety 403-5: Worker training on occupational health and safety 403-6: Promotion of worker health 403-7: Prevention and mitigation of occupational health and safety impacts directly linked by business relationships 403 -8: Workers covered by an occupational health and safety management system 403-9: Work-related injuries
Ethics and corporate governance	Adequacy of the organizational structure and adoption of governance practices aimed at the soundness of the company, legal compliance, and alignment with values such as ethics, transparency and integrity	102: General disclosures	419-1: Non-compliance with laws and regulations in the social and economic area
		103: Management approach 205: Anti-corruption	
		103: Management approach 307: Environmental compliance	
		103: Management approach 419: Socioeconomic compliance	
Stakeholder relations	Accessibility of the company in the relationship and effective engagement with stakeholders (for example, employees, investors, society, government, indigenous peoples, NGOs, etc.), transparency, communication, respect for local values, etc.	103: Management approach Own topic: Stakeholder relations	Own indicators
Non-material topic – Mitigation of local social and environmental impacts		GRI topic 305: Emissions (not material)	305-7: Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions



GRI 102-46, 102-47

BELOW, WE DETAIL THE ORIGIN OF IMPACTS RELATED TO MATERIAL TOPICS  
IN THE LINKS OF GERDAU’S VALUE CHAIN:

Topics	Suppliers	Gerdau production units/office	Customers	End consumers
Diversity and inclusion				
Co-product management				
Scrap recycling				
Water and effluents management				
Energy management				
Mitigation and adaptation to climate change				
Innovation in processes and products				
Occupational health and safety				
Ethics and corporate governance				
Stakeholder relations				

- IMPACTS GENERATED BY THE COMPANY
- IMPACTS GENERATED OUTSIDE THE COMPANY
- IMPACTS CONCERNING THE MATERIAL TOPIC  
DO NOT HAVE ORIGIN IN THIS LINK



GRI 102-18, 102-22

CHART





GRI 102-22

COMPOSITION OF THE HIGHEST GOVERNANCE BODY  
AND ITS COMMITTEES

Composition of this body/ committee, according to:	Board of Directors	Corporate Governance Committee	Strategy and Sustainability Committee	Finance Committee	Remuneration Committee
Executive or non-executive position	The CEO is also a member of the Board	The CEO is also a member of the committee	The CEO and CFO/DRI are also members of the committee	The CEO, CFO/DRI, the Legal Director and the Tax Management Director are also members of the committee	The CEO is also a member of the committee
Independence	4 independent members	4 independent members	Does not have independent members	2 independent members	2 independent members
Term of members in the governance body	1 year	1 year	1 year	1 year	1 year
Gender	1 woman	1 woman	No women	No women	No women
Participation of underrepresented social groups	Gender	Gender	None	None	None
Representation of stakeholders	Board members regularly receive reports on areas such as health and safety, people, commercial, financial and investor relations, communication, legal, environmental, and social responsibility	Committee members regularly receive reports on areas such as health and safety, people, commercial, financial and investor relations, communication, legal, environmental, and social responsibility	Committee members regularly receive reports on areas such as health and safety, people, commercial, financial and investor relations, communication, legal, environmental, and social responsibility	Committee members regularly receive reports on areas such as health and safety, people, commercial, financial and investor relations, communication, legal, environmental, and social responsibility	Committee members regularly receive reports on areas such as health and safety, people, commercial, financial and investor relations, communication, legal, environmental, and social responsibility



GRI 102-8

Total number of employees by employment type and gender — Brazilian operations <sup>(1)(2)</sup>	2018			2019		
	Men	Women	Total	Men	Women	Total
Company employees full-time	15,053	1,952	17,005	15,063	2,213	17,276
Company employees part-time (up to 25 hours per week)	0	0	0	0	0	0
Total	15,053	1,952	17,005	15,063	2,213	17,276

GRI 102-8

Total number of employees by employment contract and gender — Brazilian operations <sup>(1)(2)</sup>	2018			2019		
	Men	Women	Total	Men	Women	Total
Company employees with permanent contract	14,167	1,365	15,532	14,166	1,532	15,698
Company employees with fixed or temporary contract	886	587	1,473	897	681	1,578
Total	15,053	1,952	17,005	15,063	2,213	17,276

**Note 1:** Considers operations in Brazil. Information from other operations will be incorporated into the next reporting cycle.

**Note 2:** Considers the following: Total number of company employees (at the end of the reporting period): considered headcount of Dec./18 x Dec./19 including apprentices and interns. Does not consider employees on leave. Total number of number of workers who are not employees: considers headcount of Third-Party Productivity of Dec./18 x Dec/19. Some contractors were not considered, since we do not report contractors in administrative (e.g., restaurant, maintenance and cleaning, etc.) or investment positions. Company employees with a permanent contract: considered operational, administrative and leadership. Company employees with fixed or temporary contracts: considered apprentices and interns. Company employees on a part-time basis (up to 25 hours per week): we do not have this model.



GRI 405-1

Diversity – Other minority groups	2018					2019				
	Total number	PwD		Black		Total number	PwD		Black	
		Number	%	Number	%		Number	%	Number	%
Employees										
Apprentices	723	57	8	212	29	811	101	12	270	33
Operation	18,373	271	1	4,297	23	18,283	281	2	5,044	27.6
Interns	905	0	0	199	22	942	0	0	250	26.5
Administrative	3,527	85	2	566	16	3,755	80	2	750	20.0
Specialists/coordinators	2,603	14	1	188	7	2,805	14	0	282	10.1
Management	838	2	0	55	7	837	6	1	66	7.9
Executive Board	32	0	0	0	0	33	0	0	0	0
Members of Governance Bodies										
Audit Committee	3	0	0	0	0	3	0	0	0	0
Board of Directors	7	0	0	0	0	9	0	0	0	0
Grand total	27,011	429	2	5,958	32	27,478	482	2	6,662	24.3

**Note:** In the GLN and GSN units - employees with disabilities are not accounted for. GLA, GLP, GJD (Dominican Republic and Colombia) and GLY - black employees are not accounted for. The units included in this analysis are: GAB, GSB and Corp (in Brazil), GLN, GSN, GLM, GLA, GLO, GLP, GJD, and GLY.



GRI 403-9

ACCIDENTS WITH WORKERS WHO ARE NOT EMPLOYEES, BUT WHOSE WORK AND/OR WORKPLACE IS CONTROLLED BY THE ORGANIZATION

Work-related accidents	2018	2019
	TOTAL	TOTAL
Number of fatalities as a result of work-related injury	6	1
Rate of fatalities as a result of work-related injury	0.18	0.03
Number of high-consequence work-related injuries (excluding fatalities)	15	10
Rate of high-consequence work-related injuries (excluding fatalities)	0.44	0.30
Number of work-related injuries (including fatalities)	168	180
Rate of work-related injuries (including fatalities)	4.92	5.33
Accident severity rate	36.7	228.3
Number of hours worked	34,168,215	33,745,526

**Note:** the main types of related injuries are: cuts, contusions, burns. Rates were calculated based on 1,000,000 hours worked. The measures above are for all employees and contractors, as well as truck drivers and visitors to our facilities. All Gerdau units are included in the scope of this indicator



GRI 303-3

Water withdrawal (megaliters)		2018		2019	
		All areas	Areas with water stress	All areas	Areas with water stress
		TOTAL GERDAU		TOTAL GERDAU	
Surface water, including rivers and lakes	Total	37,948.69637	2,230.176	39,080.17413	2,573.543
	Freshwater (≤1,000 mg/L total dissolved solids)	37,773.53	2,105.02	38,799.59	2,351.74
	Other water (> 1,000 mg/L total dissolved solids)	175.17	125.16	280.58	221.80
Groundwater	Total	7,488.958206	4,192.5164	8,128.567537	4,208.0437
	Fresh water (≤1,000 mg/L total dissolved solids)	6,935.02	4,031.20	7,634.03	4,088,61
	Other water (> 1,000 mg/L total dissolved solids)	553.94	161.32	494.54	119.43
Seawater	Total	0	0	0	0
	Fresh water (≤1,000 mg/L total dissolved solids)	0	0	0	0
	Other water (> 1,000 mg/L total dissolved solids)	0	0	0	0
Rainwater (harvested and stored directly by the organization)	Total	542.0648944	257.11	551.8402278	246.61
	Fresh water (≤1,000 mg/L total dissolved solids)	269.79	121.11	294.56	125.61
	Other water (> 1,000 mg/L total dissolved solids)	272.28	136.00	257.28	121.00
Produced water	Total	0	0	0	0
	Fresh water (≤1,000 mg/L total dissolved solids)	0	0	0	0
	Other water (> 1,000 mg/L total dissolved solids)	0	0	0	0
Water utilities	Total	3,553.446688	515.50924	3,351.152684	475.780107
	Fresh water (≤1,000 mg/L total dissolved solids)	3,140.31	302.20	3,049.57	311.78
	Other water (> 1,000 mg/L total dissolved solids)	413.13	213.31	301.59	164.00
Total water withdrawal	Total	49,533.17	7,195.31	51,111.73	7,503.98
	Fresh water (≤1,000 mg/L total dissolved solids)	48,118.65	6,559.53	49,777.75	6,877.74
	Other water (> 1,000 mg/L total dissolved solids)	1,414.52	635.78	1,333.99	626.24

**Note 1:** The organization does not withdraw seawater.  
**Note 2:** The operations were classified in areas with water stress according to the Aqueduct Water Risk Atlas. — <https://www.wri.org/resources/maps/aqueduct-water-risk-atlas>



GRI 303-4

Total water discharge (megaliters)		2018		2019	
		All areas	Areas with water stress	All areas	Areas with water stress
		TOTAL GERDAU		TOTAL GERDAU	
Surface water, including rivers and lakes	Total	24,701.91905	204.8641	23,194.78823	259.5485
	Fresh water (≤1,000 mg/L total dissolved solids)	24,571.43	184.39	23,079.64	258.29
	Other water (> 1,000 mg/L total dissolved solids)	130.49	20.47	115.15	1.26
Groundwater	Total	27.407	0	43.76779889	0
	Fresh water (≤1,000 mg/L total dissolved solids)	27.41	0	43.77	0
	Other water (> 1,000 mg/L total dissolved solids)	0	0	0	0
Seawater	Total	75.552	0	75.552	0
	Fresh water (≤1,000 mg/L total dissolved solids)	75.55	0	75.55	0
	Other water (> 1,000 mg/L total dissolved solids)	0	0	0	0
Water sent to other companies (third-party water)	Total	756.1687112	132.95	725.5843876	146.15
	Fresh water (≤1,000 mg/L total dissolved solids)	362.58	8.90	371.06	8.90
	Other water (> 1,000 mg/L total dissolved solids)	393.59	124.05	354.52	137.25
Total water discharge	Total	25,561.04676	337.8141	24,039.69241	405.6985
	Fresh water (≤1,000 mg/L total dissolved solids)	25,036.98	193.2931	23,570.01953	267.1885
	Other water (> 1,000 mg/L total dissolved solids)	524.0712149	144.521	469.6728876	138.51

**Note:** The operations were classified in areas with water stress according to the Aqueduct Water Risk Atlas. — <https://www.wri.org/resources/maps/aqueduct-water-risk-atlas>





GRI 306-2

Non-hazardous waste by destination method (tons)	2018	2019
Reuse	4,280,354	4,546,707
Disposal	1,472,468	1,442,977
Total non-hazardous waste	5,752,823	5,989,684

**Note1:** No waste was sent for underground injection or composting. **Note 2:** Scope of the indicator: Venezuela and Dominican Republic units are not included in this indicator.

GRI 306-2

Hazardous waste by destination method (tons)	2018	2019
Reuse	310,829	401,036
Disposal	53,549	115,567
Total hazardous waste	364,378	516,603

**Note 1:** No waste was sent for underground injection or composting. **Note 2:** Scope of the indicator: Venezuela and Dominican Republic units are not included in this indicator.



GRI 307-1

Non-compliance with environmental laws and regulations	GLM		GSN and GLN		Metric
	2018	2019	2018	2019	
Total number of significant fines received in the year	1	2	2	2	Number
Total monetary value of significant fines received in the year	US\$ 6,999	US\$ 11,306	US\$ 5,000,000	US\$ 76,881	U.S. Dollars
Total number of non-monetary sanctions	0	1	2	0	Number
Number of cases brought through the use of dispute resolution mechanisms	1	3	4	2	Number

**Note 1:** Information regarding the Argentina, Colombia and Uruguay operations is not available.

**Note 2:** In Brazil, significant fines consider:

(i) materiality: amounts equal to or greater than US\$ 8 million and/or; (ii) relevance: they have the potential to prevent or limit the activities performed or to impact the image.

In the Dominican Republic, monetary sanctions of more than US\$ 1 million and non-monetary sanctions that can adversely affect:

i) the company's ability to conduct its business and/or fulfill its obligations in a timely manner; and

ii) the good image and reputation of the company. For Venezuela and Peru, there is no information about what is considered significant.

GRI G4-MM3

Waste, tailings and sludge generated by operations (tons)	2018	2019
	GAB Aços Longos Brasil	GAB Aços Longos Brasil
Estéril	4,963,786	6,157,189
Residuo	271,656	254,936
Lodo	-	-
Total	5,235,442	6,412,125

GRI 302-3

Energy intensity <small>GRI 302-3</small>		2019
Gerdau	A. Total energy consumed (GJ)	151,201,598.912
	B. Production (tons of steel produced)	12,453,099.00
	C. Energy intensity (A/B)	12.14

**Note:** Scope of the indicator: the following operations were not accounted for: the Dominican Republic, since the operation does not produce steel, and Venezuela, since we do not have consistent data for all indicators.



GRI 201-2

FOR OPERATIONS IN BRAZIL, RISKS ARE MAPPED AS FOLLOWS:

Risks or opportunities arising from climate change	Nature of risk	Associated impacts	Financial implications calculated for the risk/ opportunity (if no actions are taken)	Calculated methods for managing risk or opportunity	Cost to manage such actions
Laws and regulations	Regulatory	Laws and regulations that seek to reduce greenhouse gases may be enacted in the future, which may have a significant adverse impact on the company's results of operations, cash flows, and financial situation. One of the possible effects of the growth in requirements related to the reduction of greenhouse gas emissions is the increase in costs, mainly due to the demand to reduce consumption of fossil fuels and the implementation of new technologies in the production chain. Gerdau believes that operations in the countries where it operates may be affected in the future by federal, state and municipal initiatives related to climate change, which aim to deal with greenhouse gases (GHGs). In this sense, one of the possible effects of this growing set of legal requirements could be the increase in the cost of energy. As a result, the company's financial condition and results of operations may be adversely affected. In addition, the impact of creating a Carbon Pricing in Brazil is being studied. In Mexico, where Gerdau also has operations, a carbon emissions trading system, called MexiCO2, is already consolidated. It is an environmental market platform, which sells certified emission reductions, clean energy certificates and is developing alternatives to establish an emissions trading system.	Not calculated	This topic is discussed and monitored by the Risk, Disclosure, Strategy, and Sustainability Committees and the Board of Directors on a quarterly basis, with the participation of the CFO. Integrated with the initiatives related to climate change, Gerdau participates in the Emissions Trading System Simulation, conducted by the Getulio Vargas Foundation, an initiative whose objective is to generate knowledge about the contribution of carbon pricing instruments to the attainment of goals to reduce GHG emissions in a cost-effective manner. The purpose of this effort is to understand the possible effects of mitigation policies on business and investments, anticipating a future mandatory pricing scenario.	Not calculated
Changes in precipitation patterns and extreme variability in weather patterns	Physical	Lack of water in the operational units caused by a water crisis related to the impacts of climate change. Decrease in revenue due to reduced production capacity.	Not calculated	In 2019, the Risk Committee assessed environmental issues and included in its analysis the identification of the causes, justifications, and adaptation plan for the case of three industrial units that were susceptible to impacts related to water scarcity.	Not calculated



GRI 201-2

FOR OPERATIONS IN BRAZIL, RISKS ARE MAPPED AS FOLLOWS:

Risks or opportunities arising from climate change	Nature of risk	Associated impacts	Financial implications calculated for the risk/opportunity (if no actions are taken)	Calculated methods for managing risk or opportunity	Cost to manage such actions
Risks to reputation	Other	Risk factors considered in relation to: customers, the scientific and academic community, surrounding communities, competitors, consumers, suppliers, press, investors, civil society organizations, partners, public authorities, internal audience, and the possible impact of Gerdau's shares on the stock exchange shares. Regarding the risks for the steel industry, this sector is reported in studies on Carbon Pricing in Brazil as the one with the least impact on the country's general emissions and which may be the most affected by pricing directly and through environmental permits taking into account the Social license.	Not calculated	Gerdau considered this type of risk by assessing the organization's image, with criteria defined in its Risk Matrix. Aiming at better transparency of information related to climate, in the short term, Gerdau intends to publish its GHG emissions inventories in 2020 and the governance for this topic. The risk is discussed by the organization's Board of Directors.	Not calculated
Risks related to access to markets and financing	Regulatory	Increased stakeholder demand regarding this topic.	Not calculated	Market risks related to steel and GHG emission rates are assessed, monitored and discussed by the organization's CEO, considering regulations, technologies and advances in a shift to a low-carbon industry. Competitiveness in relation to foreign markets is taken into account in the analyses that involve carbon pricing in Brazil. Gerdau's units are conducting life-cycle assessments of their products considering the analysis of effectiveness and addressing the risks of climate change impacts in terms of the use of materials in the market. Gerdau is committed to reporting on the Carbon Disclosure Project environmental information related to climate change and other aspects of the company's environmental management, identifying the risks and opportunities in our operations captured through initiatives to reduce emissions and risk mitigation actions.	Not calculated



GRI 201-2

IN NORTH AMERICAN OPERATIONS, RISKS ARE MAPPED AS FOLLOWS:

Risks or opportunities arising from climate change	Nature of risk	Associated impacts	Financial implications	Calculated methods for managing risk or opportunity	Cost to manage such actions
U.S. operations	Laws and regulations	Potential to impose regulatory requirements to reduce emission rates using process changes/ improvements, emission controls and/or the introduction of a carbon tax for GHG emissions.	Not estimated	Robust participation in the procedures of the Steel Manufacturers Trade Association, briefings, engagement in advocacy and communication with stakeholders. At state and local levels, we closely monitor regulatory activities and participate in defense actions where appropriate.	Not estimated
Canada operations	Regulatory and financial	Potential for imposing additional regulatory requirements to reduce emission rates using process changes/ improvements and emission controls. Potential in the future to increase costs of GHG emissions from the current US\$ 20 per ton of COeq, based on EAF and rolling mill emissions and production.	Not estimated	Robust participation in the procedures of the Steel Manufacturers Trade Association, briefings, engagement in advocacy and communication with stakeholders. At state and local levels, we closely monitor regulatory activities and participate in defense actions where appropriate. Within GLN, where appropriate, we report significant/material problems to the plant manager, environment director, owner of the environmental process (member of the GLNC) and other stakeholders.	Not estimated



Midlothian Steel Mill,  
Texas (USA)

# GRI CONTENT INDEX







GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 101: Foundation 2016 [does not include disclosure number]				
Organizational profile				
GRI 102: General Disclosures 2016	102-1	Name of the organization	7	
GRI 102: General Disclosures 2016	102-2	Activities, brands, products, and services	31	
GRI 102: General Disclosures 2016	102-3	Location of headquarters	109 (index)	São Paulo - SP, Brazil.
GRI 102: General Disclosures 2016	102-4	Location of operations	12	
GRI 102: General Disclosures 2016	102-5	Ownership and legal form	109 (index)	Publicly traded company.
GRI 102: General Disclosures 2016	102-6	Markets served	31	
GRI 102: General Disclosures 2016	102-7	Scale of the organization	12	
GRI 102: General Disclosures 2016	102-8	Information on employees and other workers	50, 51, 98	
GRI 102: General Disclosures 2016	102-9	Supply chain	31	
GRI 102: General Disclosures 2016	102-10	Significant changes to the organization and its supply chain	109 (index)	During the period, there were no significant changes to the organization or its supply chain.
GRI 102: General Disclosures 2016	102-11	Precautionary Principle or approach	109 (index)	Gerdau bases its risk analysis on the precautionary principle, but does not formally adopt this principle.
GRI 102: General Disclosures 2016	102-12	External initiatives	45, 67, 69	
GRI 102: General Disclosures 2016	102-13	Membership of associations	63	
Strategy				
GRI 102: General Disclosures 2016	102-14	Statement from senior decision-maker	4	
GRI 102: General Disclosures 2016	102-15	Key impacts, risks, and opportunities	22, 68	
Ethics and Integrity				
GRI 102: General Disclosures 2016	102-16	Values, principles, standards, and norms of behavior	15	
GRI 102: General Disclosures 2016	102-17	Mechanisms for advice and concerns about ethics	20, 21	





GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
Governance				
GRI 102: General Disclosures 2016	102-18	Governance structure	19, 96	
GRI 102: General Disclosures 2016	102-22	Composition of the highest governance body and its committees	96, 97	
GRI 102: General Disclosures 2016	102-23	Chair of the highest governance body	110 (index)	The president of the highest governance body is not an executive director.
GRI 102: General Disclosures 2016	102-24	Nominating and selecting the highest governance body	19	
Stakeholder engagement				
GRI 102: General Disclosures 2016	102-40	List of stakeholder groups	7	
GRI 102: General Disclosures 2016	102-41	Collective bargaining agreements	52	
GRI 102: General Disclosures 2016	102-42	Identifying and selecting stakeholders	9	
GRI 102: General Disclosures 2016	102-43	Approach to stakeholder engagement	8, 9	
GRI 102: General Disclosures 2016	102-44	Key topics and concerns raised	9	
Reporting practices				
GRI 102: General Disclosures 2016	102-45	Entities included in the consolidated financial statements	110 (index)	The following entities are included in Gerdau S.A's earnings release: Metalúrgica Gerdau S.A. Gerdau S.A. Empresa Siderúrgica del Peru S.A.A. Peru Gerdau Aços Longos S.A. Brasil Gerdau Açominas S.A. Brasil Gerdau Internacional Empreendimentos Ltda. Gerdau Ameristeel Corp. EUA Gerdau Macsteel Inc. EUA Gerdau Metaldom Corp. Rep. Dominicana Diacó S.A. Colômbia Gerdau Summit Aços Fundidos e Forjados S.A. Brasil Gerdau Corsa S.A.P.I. México Siderurgica Tultitlán, S.A. de CV México Gerdau Laisa S.A. Uruguai Sipar Aceros S.A. Argentina Siderúrgica Zuliana, C.A. Venezuela





GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 102: General Disclosures 2016	102-46	Defining report content and topic Boundaries	9, 93, 94, 95	
GRI 102: General Disclosures 2016	102-47	List of material topics	9, 93, 94, 95	
GRI 102: General Disclosures 2016	102-48	Restatements of information	111 (index)	This is the first report in which Gerdau has adopted the GRI Standards disclosure items — Core option.
GRI 102: General Disclosures 2016	102-49	Changes in reporting	7	
GRI 102: General Disclosures 2016	102-50	Reporting period	7	
GRI 102: General Disclosures 2016	102-51	Date of most recent report	111 (index)	Integrated Reporting 2018 ( <a href="https://ri.gerdau.com/divulgacao-e-resultados/relato-integrado-e-balancos/">https://ri.gerdau.com/divulgacao-e-resultados/relato-integrado-e-balancos/</a> )
GRI 102: General Disclosures 2016	102-52		7	
GRI 102: General Disclosures 2016	102-53		111 (index)	ana.camargo@gerdau.com.br
GRI 102: General Disclosures 2016	102-54	Claims of reporting in accordance with the GRI Standards	7	
GRI 102: General Disclosures 2016	102-55	GRI Content Index	109, 110, 111, 112, 113, 114, 115	
GRI 102: General Disclosures 2016	102-56	External assurance	7	
Topic: Mitigation and adaptation to climate change				
Topic – Economic performance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	87, 90	
GRI 103: Management Approach 2016	103-2	The management approach and its components	87, 90	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	87, 90	
GRI 201: Economic Performance 2016	201-2	Financial implications and other risks and opportunities due to climate change	90, 105, 106, 107	
Topic: Ethics and corporate governance				
Topic – Anti-corruption				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	20, 21	
GRI 103: Management Approach 2016	103-2	The management approach and its components	20, 21	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	20, 21	





GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption	112 (index)	All operations and processes with direct impact on cash flow are evaluated by internal audit on an ongoing and rotating basis, including analysis of corruption. The risks identified are assessed with process owners, and an action plan is defined to eliminate or minimize exposure to those risks. Internal audit follows up on its implementation.
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	21	
GRI 205: Anti-corruption 2016	205-3	Confirmed incidents of corruption and actions taken	112 (index)	No corruption event associated with public agents or representing any type of corruption involving senior management or considered relevant fraud has been identified.
Topic: Scrap recycling				
Topic – Materials				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	74	
GRI 103: Management Approach 2016	103-2	The management approach and its components	74	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	74	
GRI 301: Materials 2016	301-2	Recycled input materials used	75	
Topic: Energy management				
Topic – Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	80, 81	
GRI 103: Management Approach 2016	103-2	The management approach and its components	80, 81	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	80, 81	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	81	
GRI 302: Energy 2016	302-3	Energy intensity	104	
Topic: Management of water and effluents				
Topic – Water and effluents				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	75, 76	
GRI 103: Management Approach 2016	103-2	The management approach and its components	75, 76	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	75, 76	





GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 303: Water and effluents 2018	303-1	Interactions with water as a shared resource	75, 76	
GRI 303: Water and effluents 2018	303-2	Management of water discharge-related impacts	75, 76	
GRI 303: Water and effluents 2018	303-3	Water withdrawal	101	
GRI 303: Water and effluents 2018	303-4	Water discharge	102	
GRI 303: Water and effluents 2018	303-5	Water consumption	77	
Topic: Mitigation and adaptation to climate change				
Topic – Emissions				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	84, 85	
GRI 103: Management Approach 2016	103-2	The management approach and its components	84, 85	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	84, 85	
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	85	
GRI 305: Emissions 2016	305-2	Energy indirect (Scope 2) GHG emissions	85	
GRI 305: Emissions 2016	305-4	GHG emissions intensity	85	
Topic: Co-product management				
Topic – Waste				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	78	
GRI 103: Management Approach 2016	103-2	The management approach and its components	78	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	78	
GRI 306: Effluents and Waste 2016	306-2	Waste by type and disposal method	78, 103	
G4 Sector disclosures - Mining and Metals	MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	79, 104	
Topic: Ethics and corporate governance				
Topic – Environmental compliance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	74	





GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 103: Management Approach 2016	103-2	The management approach and its components	74	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	74	
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	79, 104	
Topic – Socioeconomic Compliance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	64	
GRI 103: Management Approach 2016	103-2	The management approach and its components	64	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	64	
GRI 419: Socioeconomic compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	114 (index)	In 2019, Gerdau did not receive significant fines or non-monetary sanctions due to non-compliance with laws and regulations in the social and economic spheres.
Topic: Innovation in processes and products				
Own topic: Innovation in processes and products				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16, 23, 26, 62	
GRI 103: Management Approach 2016	103-2	The management approach and its components	16, 23, 26, 62	
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach	16, 23, 26, 62	
Disclosure number Gerdau	GER -1	Financial return on digital projects	16	
Topic: Stakeholder engagement				
Own topic: Stakeholder engagement				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary		
GRI 103: Management Approach 2016	103-2	The management approach and its components		
GRI 103: Management Approach 2016	103-3	Evaluation of the management approach		
Disclosure number Gerdau	GER -2	Number of stakeholders involved in engagement projects		
Topic: Occupational health and safety				
Topic – Occupational Health and Safety				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	55, 59	



GRI Content Index (GRI 102-55)				
GRI Standards	Disclosure number	Disclosure title	Page and/or link	Comments or reason for omission 2019
GRI 103: Management Approach 2016	103-2	The management approach and its components	55, 59	
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