

GERDAU AÇOMINAS INVESTMENT PROGRAM (BR-L1118)

PROJECT ABSTRACT

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| Location: | Brazil |
| Sector: | Mining & Metals |
| Transaction type: | Corporate Finance |
| Borrower: | Gerdau Açominas S.A. |
| Total Project cost: | US\$370 million |
| Proposed IDB A-Loan: | US\$50 million |

Gerdau Açominas S.A. (the “Company”), a company incorporated in Brazil, is the country’s largest operation of the Gerdau group of companies (Gerdau Group). It is a closed capital company and controlled by *Gerdau S.A.* (Gerdau), which owns 92.16% of its total and common shares. The remainder of its common shares is owned by *Metalúrgica Gerdau S.A.* (0.67%) and others (7.17%).

The Company’s industrial plant, the *Ouro Branco* Mill (formally named *Usina Presidente Arthur Bernardes*) is located between the cities of *Ouro Branco* and *Congonhas*, in the State of *Minas Gerais*, Brazil, and about 100 kilometers to the southeast of the state capital, *Belo Horizonte*. It started operations in 1986 and produces slab, blooms and billets, as well as finished products such as high-quality wire rods and steel sections, which are sold in over 40 countries, in addition to by-products used in the metal and chemical industries and in road paving.

The Company has been implementing a US\$1.5 billion capital expenditure program aimed at increasing its production capacity at the *Ouro Branco* Mill by 50%, from the annual capacity of 3.0 million metric tons to 4.5 million metric tons of liquid steel. As part of this program, the Company is undertaking a US\$300 million investment plan that comprises the installation of: (i) new continuous slab casting equipment to produce slab for flat steel production; (ii) a vacuum degassing unit to improve steel quality; and (iii) gantry cranes and ancillary equipment (together, the “Project”).

The implementation of the Project is expected to: (i) increase the output of steel slab and its availability in the market; (ii) further improve the competitiveness of the steel industry by increasing the Company’s productivity and improving the quality of its products; (iii) increase Brazilian exports and thus generate foreign currency reserves; (iv) contribute to the regional economy; (v) generate direct and indirect jobs (mostly during construction) while increasing the qualifications and level of training of the employees hired in the plant; and (vi) improve the Company’s overall business performance.

Given current market conditions, banks have become considerably more cautious as to providing long-term financing, even to high grade companies. Currently, with deteriorated market conditions, it is even less likely that the Company would be able to achieve the proposed B-Loan tenor of seven years without a multilateral umbrella. Such

umbrella allows the Company to leverage efficiently the large amounts of financing necessary to continue the Company's expansion and, as such, IDB's participation has clear financial additionality. Furthermore, the IDB loan will significantly mobilize term commercial financing through its B-Loan, with a B-Loan to A-Loan ratio of 3:1.

The Bank will assist Gerdau Açominas in enhancing the necessary Project and Company mitigation and monitoring plans and procedures in order to better address applicable environmental, social, health and safety, and labor impacts and risks. As per IDB's OP 703 Environment and Safeguards Compliance Policy, the Project has been classified as a Category B operation. IDB's Environmental and Social Strategy for this operation is presented in a separate document (*Environmental and Social Strategy*).

As an added environmental and social benefit related to the Project, 5% of the proceeds of the A-Loan will be earmarked and allocated to fund environmental and social projects that will benefit the population (around 160,000 people) of three municipalities of the region where the Company is located.

The Project has also been framed within the Bank's Sustainable Energy and Climate Change Initiative (SECCI). SECCI will provide Gerdau technical cooperation funds to perform an energy efficiency assessment in one of the steel mills of the Gerdau Group, to assess its overall energy efficiency characteristics, measure its carbon emissions levels, and propose measures to increase efficiency and reduce emissions. This activity is consistent with the Bank's goal to expand the development and use of renewable energy sources, energy efficiency technologies and practices, and carbon finance in the Region.