

PROJECT ABSTRACT

Transaction Name:	Gerdaу Açominas Investment Program
Location:	Brazil
Project Number	BR-L1118
Sector:	Mining & Metals
Transaction Type:	Corporate Finance
Borrower:	Gerdaу Açominas S.A.
Total Project Cost:	US\$300 million
Proposed IDB A- Loan:	US\$100 million

I. TRANSACTION DESCRIPTION

Gerdaу Açominas S.A. (“Gerdaу Açominas”, or the “Company”, or the “Borrower”), a company incorporated in Brazil, is the largest steel mill of the Gerdaу group of companies (the “Gerdaу Group”). The Company is implementing a US\$1.5 billion capital expenditure program aimed at increasing its production capacity at the *Ouro Branco* Mill 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*. 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 material for flat steel production; (ii) a vacuum degassing unit to improve steel quality; and (iii) gantry cranes and ancillary equipment (together the “Investment Plan”).

The *Ouro Branco* Mill has an annual production capacity of 3.0 million tons of steel per year (“mts”). The Investment Plan, together with other improvements being made at the plant, will increase its capacity by 50 percent to 4.5 mts. As a result, the Gerdaу Group’s annual steel production capacity will reach 20.5 mts.

The Company is a closed capital company incorporated in Brazil and controlled by *Gerdaу S.A.*, which owns 89.36 percent of its total and common shares. The remainder of its common shares is owned by *Metalúrgica Gerdaу S.A.* (0.20%), *Santa Felicidade Comércio, Importação e Exportação de Produtos Siderúrgicos Ltda.* (0.16%) and others (10.28%).

The Company started operations in 1986, and produces steel billets, slabs, blooms, wire rod and structural profiles, which are sold in over 40 countries, in addition it generates carbon compounds and by-products used in the metal and chemical industries and in road paving. It sells its products to rolling mills and to companies that use slabs, billets, blooms and ingots for uses such as shipbuilding, forging and mechanical. It also produces its own finished products such as high quality wire rod and sections.

II. DEVELOPMENTAL IMPACT

The implementation of the Investment Plan will contribute to the growth in the Company's production capacity, which will have the following development impacts: (i) increase in the Company's competitiveness resulting in growth in domestic and export sales; (ii) increase in employment in the location of the projection during construction and operation; and (iii) increase in the Region's GDP.

The Government of Brazil recently announced the *Programa de Aceleração do Investimento* ("PAC"), a BR\$500 billion investment program aimed to increase the country's development. Since most of the projects included in the PAC involves civil construction, which requires a significant quantity of steel, the implementation of the Investment Plan will contribute to supply the necessary material for the projects contemplated in the PAC program, also helping to avoid shortage of steel supply and higher prices in the sector.

III. BANK'S ADDITIONALITY

Financial. The tenors contemplated in the proposed IDB Loan are currently not available in the commercial market and, despite the improvement in the international commercial bank market for Brazil, there is still some potential volatility in this market over time. This scenario promotes the preference for a multilateral umbrella to allow the Company to leverage efficiently the large amounts of financing necessary to continue the Company's expansion and, as such, IDB participation has a clear financial additionality. Furthermore, the IDB Loan will mobilize longer-term commercial financing through its B-Loan.

Environmental and Social. The Bank will assist Gerdau Açominas in enhancing the necessary Project and Company's mitigation and monitoring plans and procedures in order to better address applicable environmental, social, health and safety, and labor impacts and risks.

IV. ENVIRONMENTAL AND SOCIAL

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*).