



SISTEMA
USIMINAS

ACQUISITION OF J. MENDES



Mineração J. Mendes

February, 2008



ADR
LEVEL I



**Dow Jones
Sustainability Indexes**
Member 2007/08

J Mendes is a strategic acquisition for Usiminas

- ✓ **Iron ore market with strong fundamentals**
 - Strong **global demand** perspective
 - Continuity **unbalances** between **supply and demand**
 - **Increasing concentration** and bargain power

- ✓ **Integrated business model better positioned to create superior value**
 - Increased **margin stability**
 - Iron ore **price hedge**
 - **Increased competitiveness** vis a vis other integrated steel players
 - Open **options to further expansion moves** in Brazil and abroad

- ✓ **Considering its size and location, J Mendes represents an opportunity to enter the iron ore market compatible with Usiminas' scale**



J Mendes brief overview

- ✓ J. Mendes is the last sizeable mining asset available in the Quadrilátero Ferrífero, a major iron ore province in Brazil
- ✓ The acquired company is comprised of four mining sites with total expected resources of **2.7 to 3.0 Bt** and expected reserves of **1.1 to 1.8 Bt**

Somisa



Global/Camargos



J Mendes



Pau de Vinho



- ✓ Expected mine **useful life** of at least **25 years**
- ✓ Expected iron content between **46 and 48%**
- ✓ Current production level at roughly **6 MMt/year**



Relative location of J Mendes

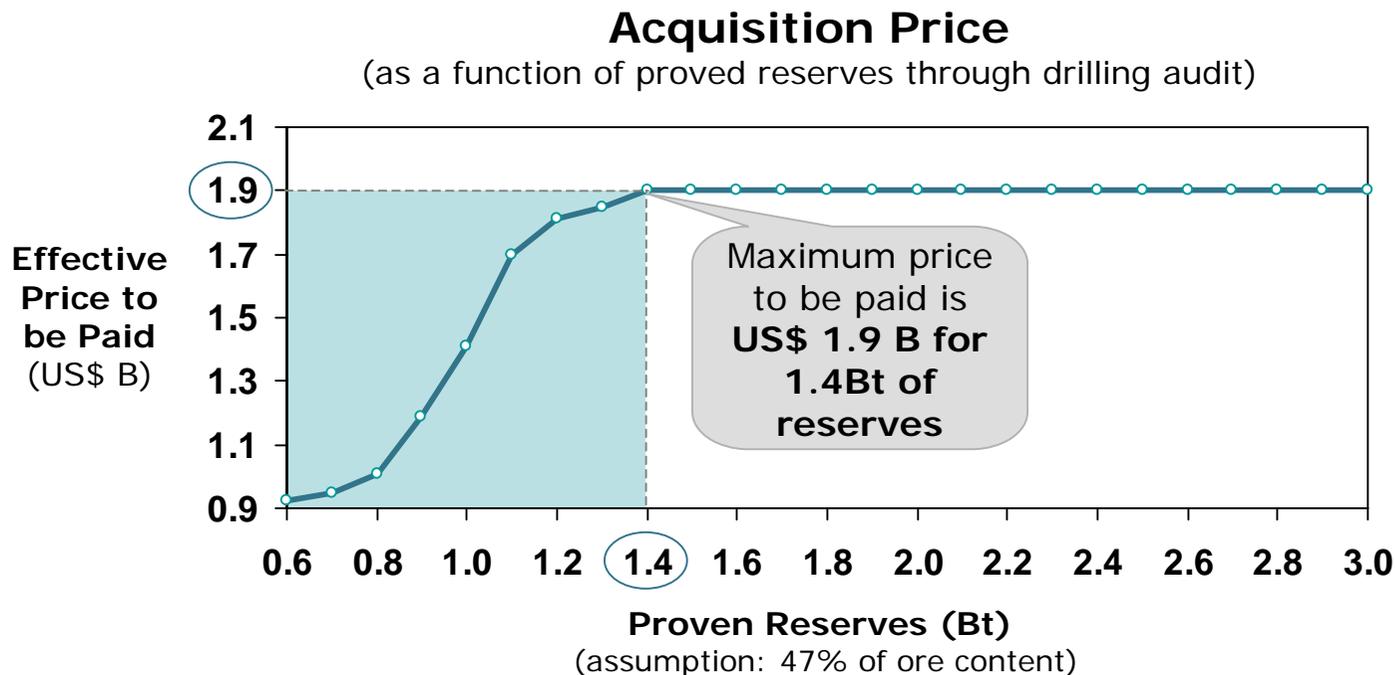
- ✓ J. Mendes mines are **close to existing railway lines (MRS – 28km and FCA – 15km)**, with access to the ports of Cosipa and Sepetiba





What was the acquisition price?

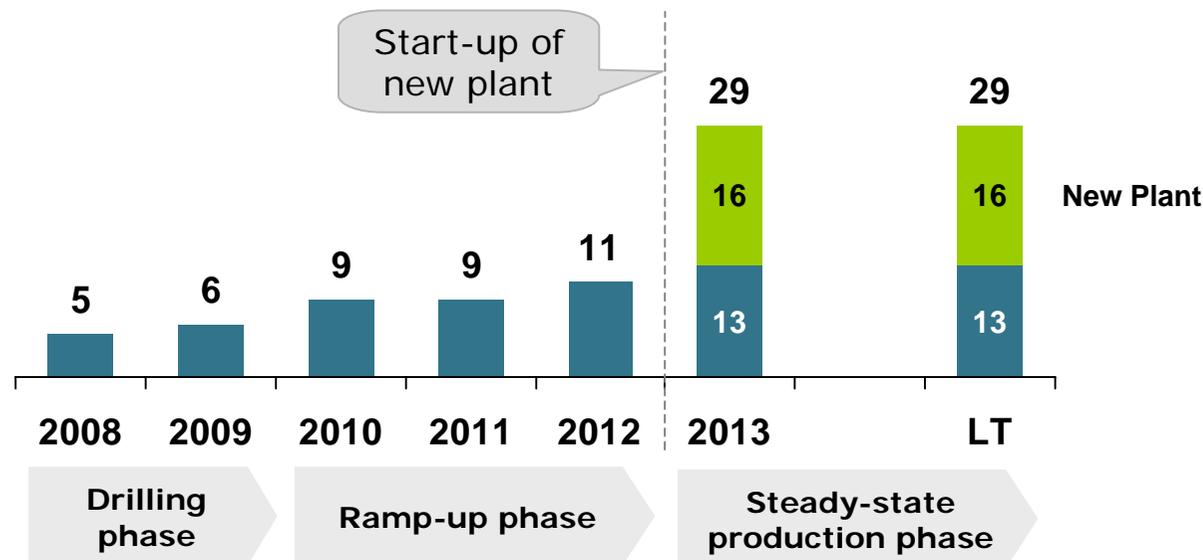
- ✓ Usiminas acquired J. Mendes with a phased cash disbursement schedule
 - Upfront payment of **US\$ 925 MM**
 - Subsequent payments over the next two years, subject to confirmation of **reserves size** and **iron content** (drilling audit process)
 - Maximum total disbursement is limited to **US\$ 1,900 MM** (for example, in case of minimum proven reserves of **1.4Bt** with at least **47%** of iron content)
 - **No additional cash** will be paid for proven reserves **in excess of 1.4Bt**



What is the production plan?

- ✓ Iron ore production capacity will be expanded to **29.2 MMt/year** in two stages
 - **First stage** – increase in current production **from 6 MMt/year to 13 MMt/year** with **marginal capex** commitments
 - **Second stage** – increase production to **29.2 MMt/year** from 2013 on with the addition of a new production plant
- ✓ With a 29.2 MMt/y production rate, the mine should operate for at least **25 years**
- ✓ Opportunities to speed-up production ramp-up under evaluation

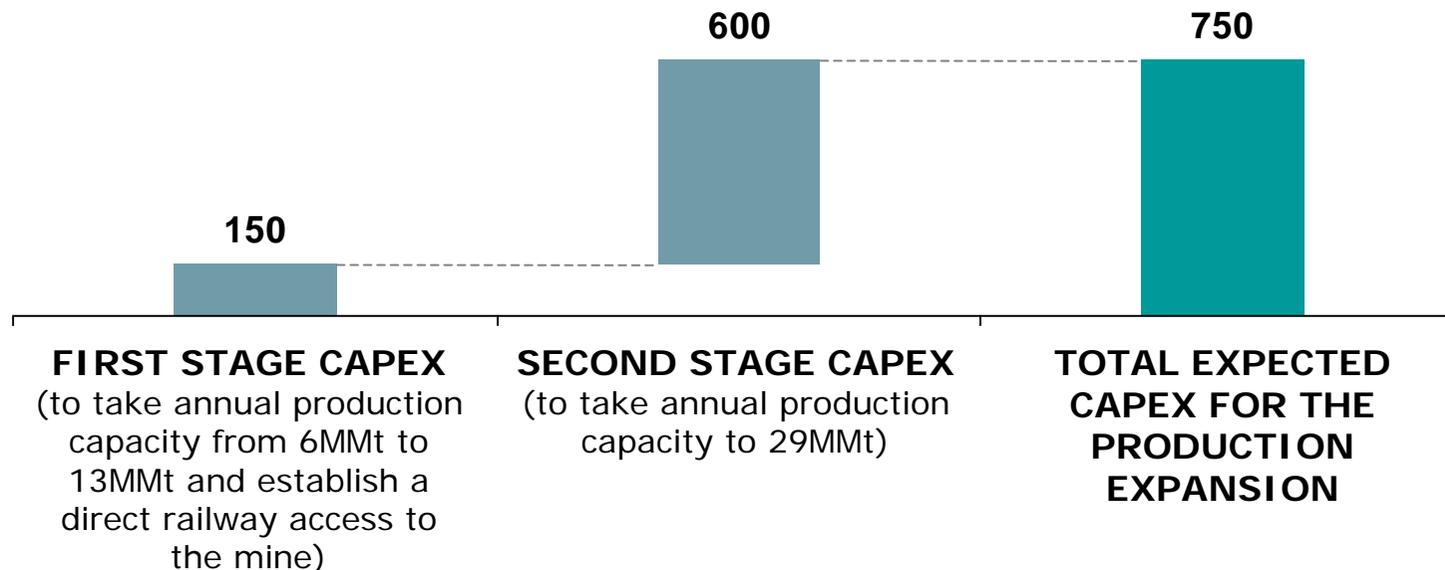
Expected Production Ramp-up (MMt)



What is the capex needed for the expansion?

- ✓ J. Mendes' current asset base allows the expansion of the production capacity to **13 MMt** with a marginal capex of **US\$ 150 MM** (including direct railway access to the mine)
- ✓ The **second expansion stage** will demand additional resources of **US\$ 600 MM** in a new production plant with **16,0 MMt** of capacity
- ✓ Considering a maximum acquisition price of US\$ 1,900 MM and the total expansion capex of US\$ 750 MM, the total maximum investment for the asset should be **US\$ 91/t of production**

Expected Expansion Capex (US\$ MM)



What is the sales plan?

- ✓ With the mine expansion, **Usiminas will be fully hedged** on iron ore future price fluctuations
 - Cosipa will be supplied mainly by J. Mendes through MRS railroad
 - Despite the fact that Ipatinga Mill will not be supplied by J. Mendes, it will have the benefit of full hedge on iron ore price fluctuations
- ✓ Excess iron ore production should be sold through contracts and the spot market



How was the financing structured?

- ✓ Usiminas **secured financing** to maintain current liquidity levels
- ✓ Usiminas' **investment grade rating kept by rating agencies**



From a margin volatility standpoint, the acquisition of J. Mendes would further improve Usiminas' business profile by creating a natural hedge for its iron ore costs...



Usiminas' Ratings Unaffected By Acquisition Negotiations

We expect Usiminas to maintain a very conservative financial strategy and credit measures for the rating category, despite the acquisitions.



Fitch views the potential acquisition positively from a business perspective, as Usiminas will become less reliant on higher cost third-party sources for the iron ore used in the production of steel

Overview of the Transaction

- ✓ J. Mendes is a **strategic acquisition** for Usiminas, providing a **natural full hedge** on iron ore, increased **margin stability** and **strengthened position** to go after **further expansion opportunities**
- ✓ J. Mendes is the **last sizeable iron ore asset** available in the Southeast region of Brazil, being **compatible with Usiminas' scale**
 - Expected **resources of 2.7 to 3.0 Bt** and **expected reserves of 1.1 to 1.8 Bt**
 - Expected **useful life** of at least **25 years** and **iron content** between **46 and 48%**
- ✓ The acquisition was made using a **phased cash disbursement schedule**
 - **Upfront** payment of **US\$ 925 MM**
 - **Subsequent payments** over the next two years **limited to an additional US\$ 975 MM**, subject to confirmation of reserves size and iron content
 - Therefore, **maximum** total disbursement is limited to **US\$ 1,900 MM** (for example, in case reserves reach **1.4Bt** with an iron content of **47%**)

Overview of the Transaction

- ✓ The **investment plan** for the mine will consume **US\$ 750 MM** to increase annual production capacity from current 6MMt to **29.2MMt** until **2013**, serving both domestic and international markets
- ✓ The **acquisition price is in line with recent comparable transactions**
- ✓ Usiminas secured **financing** to maintain current liquidity levels
- ✓ Usiminas' **investment grade rating was kept by rating agencies** (*Standard&Poor's, Moody's, Fitch Ratings*), **with favourable evaluations.**



Declarations relative to business perspectives of the Company, operating and financial results and projections, and references to the growth of the Company, constitute mere forecasts and were based on Management's expectations in relation to future performance. These expectations are highly dependent on market behavior, of Brazil's economic situation, on the industry and on international markets, and are therefore subject to change.

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