

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

Cancels & replaces the same document of 09 May 2007

CONSOLIDATION IN THE WORLD STEEL INDUSTRY - A LATIN AMERICAN PERSPECTIVE

18 May 2007

Presentation by Mr. Breno Lucki, Gerdau Group. Roundtable on consolidation in the world steel industry, 18 May 2007, Istanbul, Turkey.

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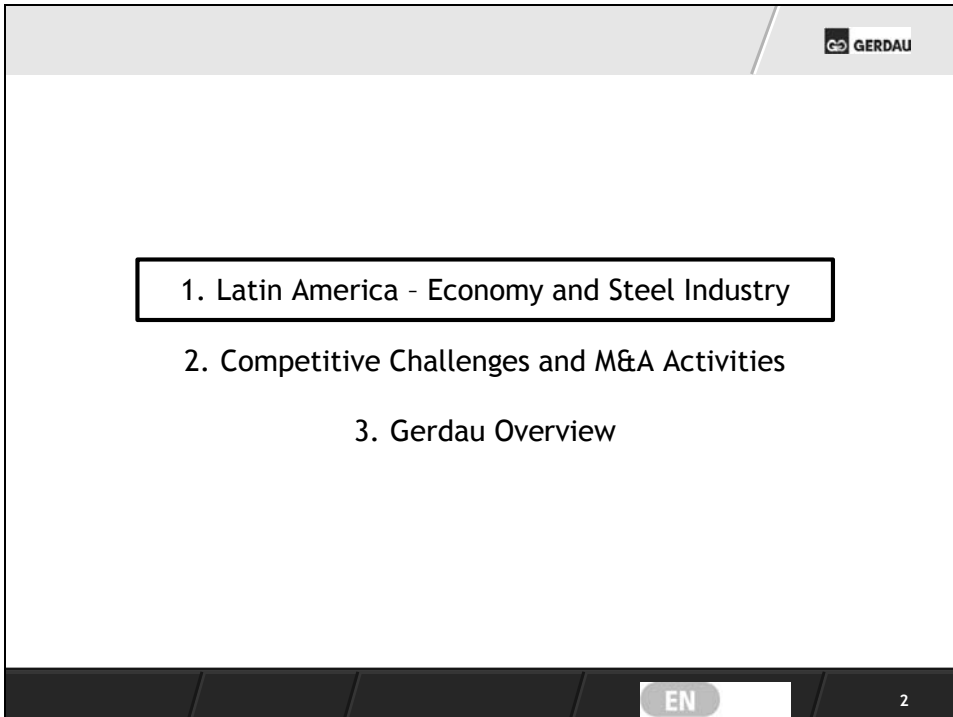
**OECD Steel Roundtable on Consolidation in the
World Steel Industry**

**Consolidation in the World's Steel Industry: National /
Regional Perspectives**

Breno Lucki
Chief Strategy Officer - Gerdau Group

17 - 18 May 2007 - Turkey, Istanbul

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GERDAU


1. Latin America - Economy and Steel Industry

2. Competitive Challenges and M&A Activities


3. Gerdau Overview

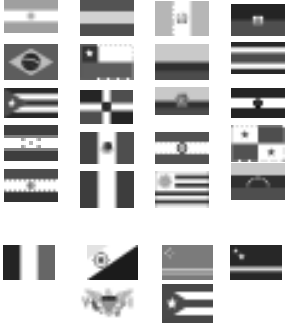
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Latin America




- Politically, Latin America is divided in 20 countries;
- Second largest world territory (21,1 million of square Km) and the third largest population (528 million inhabitants);
- Fourth largest GDP after Nafta, European Union and Japan. GDP in 2006 was USD 2,3 trillion for the region;
- Some countries are members of the Mercosur (Common markets of the south). Currently member countries are: Argentina, Brazil, Paraguay, Uruguay and Venezuela, with Bolivia, Chile, Colombia, Ecuador and Peru as associates and México as observer.





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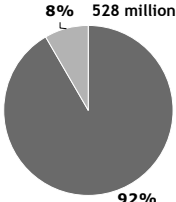
Latin America



Population - 2006

Country	Population (USD Million)
Brazil	188
Mexico	107
Colombia	43,6
Argentina	39,9
Venezuela	26
Chile	16
Bolivia	9
Uruguay	3

Minimum Growth rate : 0,5% (Uruguay)
Maximum Growth rate : 1,5% (Colombia)



8% 528 million people

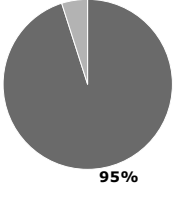
92%

■ Rest of the world ■ Latin America

GDP Billion US\$ - 2006

Country	GDP (Billion US\$)
Brazil	943,6
Mexico	741,5
Colombia	105,5
Argentina	210,0
Venezuela	147,9
Chile	112
Bolivia	10,1
Uruguay	14,6

Minimum Growth rate : 2,9% (Brazil)
Maximum Growth rate : 8,8% (Venezuela)



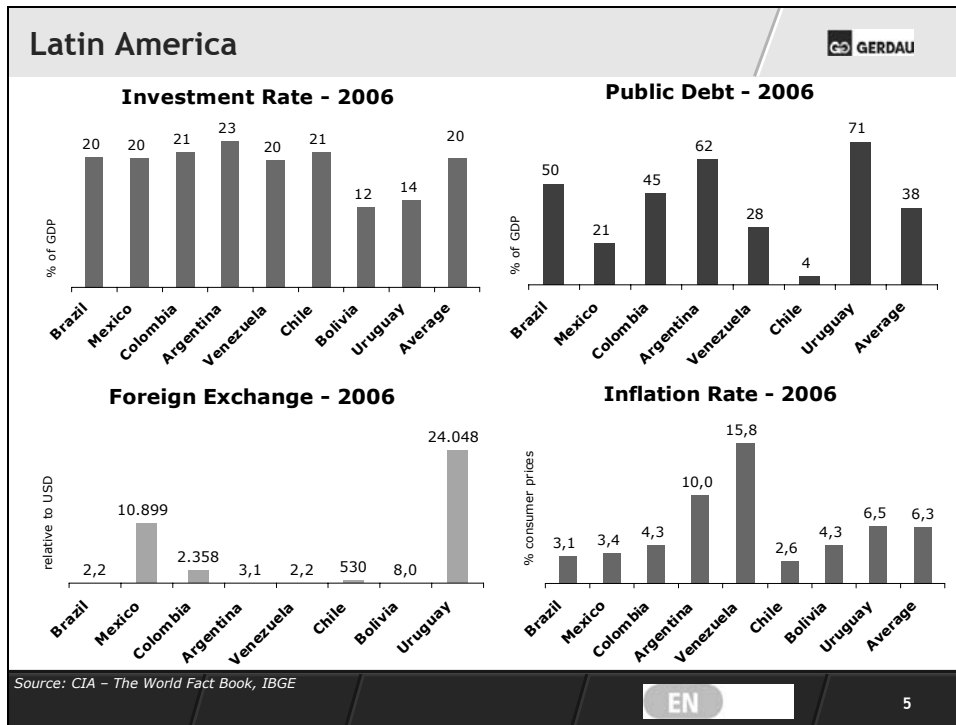
5% US\$ 2,3 trillion

95%

■ Rest of the world ■ Latin America

Data related to sample countries Source: CIA - The World Fact Book

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Latin America relative overview

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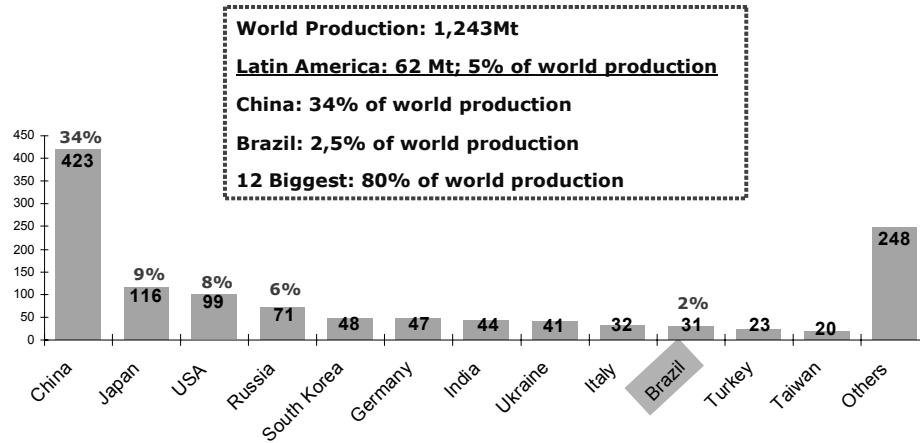
	Population (million)	GDP (US\$ trillion)	Investment Rate*	Public Debt*	Inflation Rate
G8	865	29	19	83	2,9
European Union	386	13	20	64	2,3
Latin America**	528	2,3	20	38	6,3
BRIC	2,7 Bi	5	34	30	4,9

* Data as % GDP **Data related to most representative countries

Source: CIA

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Latin America: Crude Steel Production 2006



Source: IISI

Million tons

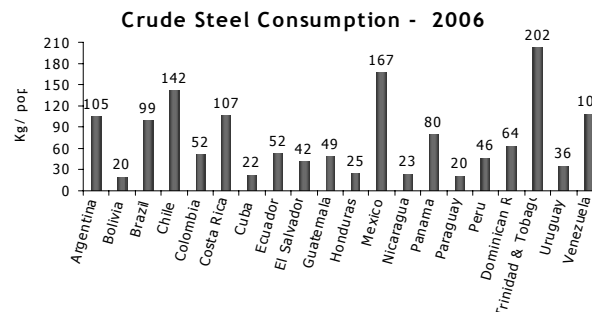
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Latin America - Steel Industry



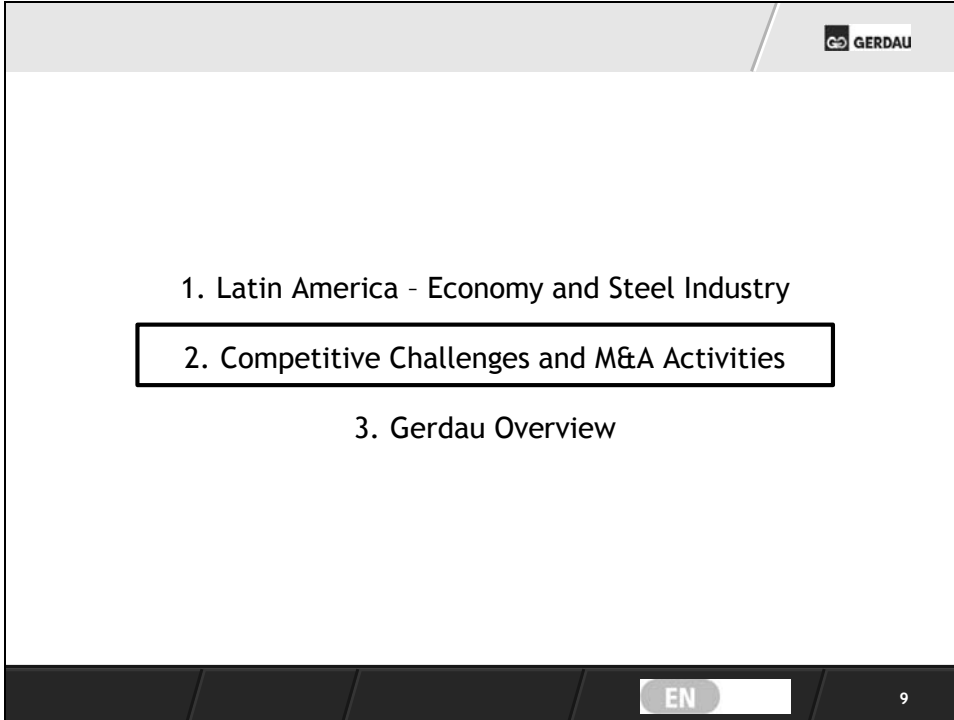
- Brazil is the only Latin American country among the 12 biggest producers, being the 10th in the world, with a production of 31 million tons;
- Latin America's production represents only 15% of China's production;
- Brazil's steel industry has advantages relative to other countries. It is well placed, close to iron ore mines and has a logistics differential, based on railroad and ports availability;
- The crude steel consumption in many Latin American countries is considered low parallel to other countries, nevertheless higher economic growth rates and investments in infra-structure might increase those figures;



Source: IISI, IBS, ILAFA

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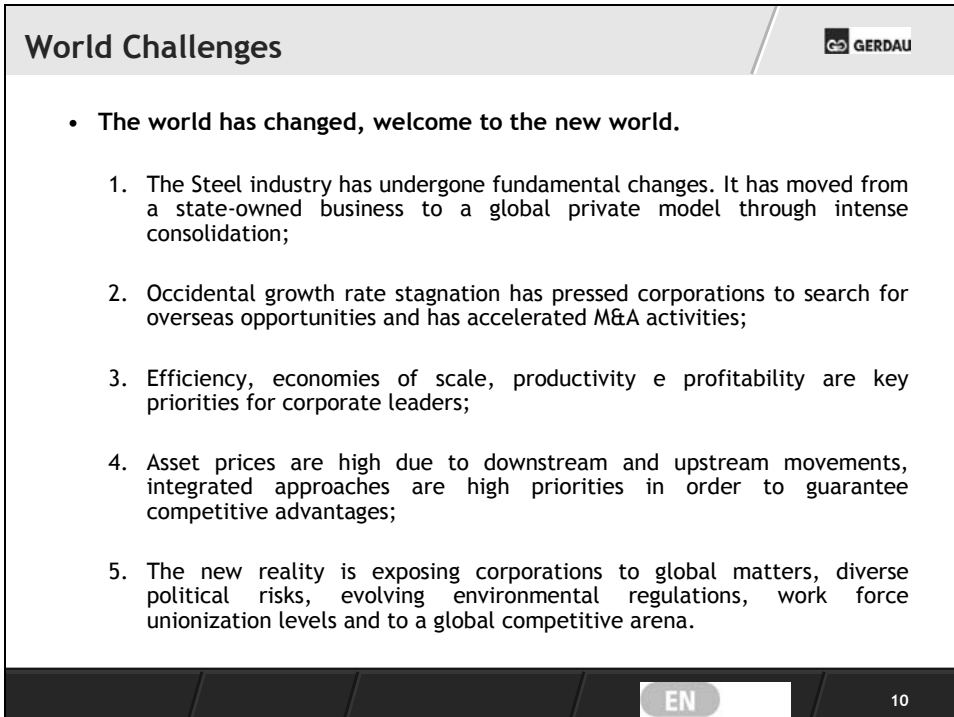


GERDAU

1. Latin America - Economy and Steel Industry
2. Competitive Challenges and M&A Activities
3. Gerdau Overview

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This slide shows the agenda for the presentation. It is titled 'GERDAU' in the top right corner. The agenda items are: 1. Latin America - Economy and Steel Industry, 2. Competitive Challenges and M&A Activities (highlighted with a black border), and 3. Gerdau Overview. The slide number '9' and the language 'EN' are in the bottom right corner.



World Challenges

GERDAU

- The world has changed, welcome to the new world.
 1. The Steel industry has undergone fundamental changes. It has moved from a state-owned business to a global private model through intense consolidation;
 2. Occidental growth rate stagnation has pressed corporations to search for overseas opportunities and has accelerated M&A activities;
 3. Efficiency, economies of scale, productivity e profitability are key priorities for corporate leaders;
 4. Asset prices are high due to downstream and upstream movements, integrated approaches are high priorities in order to guarantee competitive advantages;
 5. The new reality is exposing corporations to global matters, diverse political risks, evolving environmental regulations, work force unionization levels and to a global competitive arena.

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This slide is titled 'World Challenges' and features the Gerdau logo in the top right. It contains a bullet point: 'The world has changed, welcome to the new world.' followed by a numbered list of five points. The slide number '10' and the language 'EN' are in the bottom right corner.

Industry Changing Forces

- The world has changed, welcome to the new world

Global Steel Production

Corporations are exposed to:

- Global political risk;
- Environmental regulation;
- Competitive pressure – size matters to achieve profitability;

1850 1900 1950 2007

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M&A to leverage competition

- Market consumption in the occidental side doesn't assure required growth
 - Crude steel consumption growth is powered by China;
 - China excess production is a threat to price levels and regional operators;
 - Downstream and upstream integration as a positioning strategy to guarantee competitive advantage;
 - Value added strategies depend on market proximity and product mix diversification;

Crude Steel Growth Production - Mmt

Region	2000	2001	2002	2003	2004	2005	2006	CAGR 00-06
Europe*	~300	~300	~300	~300	~300	~300	~300	2,3%
North America	~100	~100	~100	~100	~100	~100	~100	-0,5%
South America	~50	~50	~50	~50	~50	~50	~50	2,5%
Asia	~100	~100	~100	~100	~100	~100	~100	-0,5%
China	~150	~150	~150	~150	~150	~150	~338	33,8%

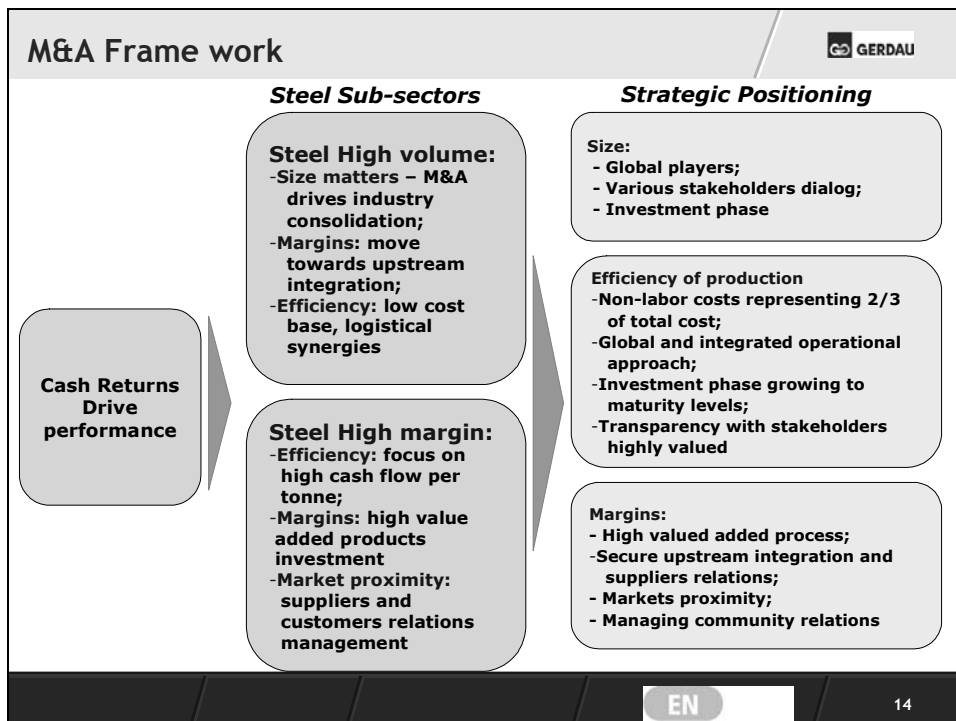
- China was responsible for 33,8% of world steel production in 2006, a very strong growth from the 15% in 2000.

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2000			2006-7		
1	Nippon	28,4	1	Mittal+Arcelor ^{1,2}	118
2	POSCO	27,7	2	Nippon	33,7
3	Arbed	24,1	3	JFE ³	32
4	Ispat	22,4	4	Posco	31,2
5	Usinor	21,0	5	Corus + Tata	24
6	Corus	20,0	6	Baosteel	22,5
7	LNM	19,2	7	US Steel	21,3
8	ThyssenKrupp	17,7	8	Nucor	20,3
9	Baosteel	17,7	9	Tangshan	19,1
10	NKK	16,0	10	Riva	18,2
11	Riva	15,6	11	Severstal ⁴	17,6
12	Kawasaki	13,0	12	ThyssenKrupp	16,8
15	US Steel	10,7	13	Evrz	16,1
17	Nucor	10,0	14	Gerdau	15,6
21	Severstal	9,6			
26	Gerdau	7,1			
31	Kryvorizstal	6,1			
41	Lucchini	4,8			
42	CST	4,8			
51	Dofasco	4,1			

1 Mittal: Ispat, ISG, LNM, Krivorozstal.
 2 Arcelor: Arbed, Usinor, Aceralia, CST, Acesita, Dofasco
 3 JFE: NKK + Kawasaki.
 4 Severstal: Lucchini, Rouge.

Source: IISI, Metal Bulletin, Gerdau analyses



Motives driving consolidation decisions



- Consolidation is driven by several competitive pressures:
 1. Country risk exposure;
 2. Upstream and Downstream consolidation strategic positioning;
 3. Market proximity and geographic diversification;
 4. Access to financial markets, capital requirements;
 5. Economies of scale, size matters;
 1. Purchasing power, iron ore, scrap, other inputs;
 2. Logistics - proximity to markets;
 3. Specialization of the production line - intra-group

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M&A key drivers - Latin America



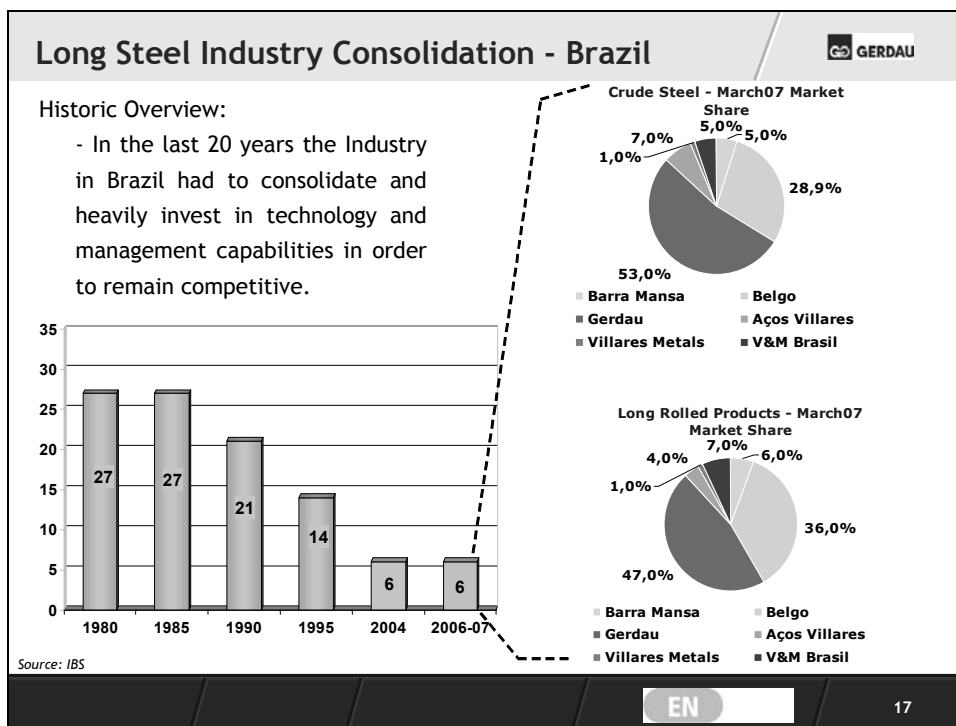
- Consolidation is driven by several competitive pressures:

Current Status

- Political risk exposure: Venezuela and Bolivia jeopardizing stability	↑
- Economic volatility: stable economic overview, reduced exposure to global crises	↓
- Foreign exchange valuation: most currencies are appreciated against the US dollar	↑
- Demand volatility: markets are stable due to shy economic growth	(=)
- Access to financial markets: broader access is available	↑
- Logistics: on spot conditions are deteriorating, proximity is a differential	↓
- Strategic alliances with local players: solutions are developed to better service clients requirements	↑
- Commercial life cycle risk: M&A activities to minimize exposure	↓

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Competitive policy and M&A

Competitive Policy:

- Steel Industry concentration is subject to the same antitrust rules and regulations that apply to other industries. Regulators must guarantee transparency in the process.
- Antitrust legislation has different levels of maturity among countries, The United States antitrust law, known as the oldest, has over a hundred years, while the Brazilian law has no more than 13 years. Most of developing countries have maturing antitrust laws.
- Under the current M&A scenario, net gains to stakeholders have to be pursued; companies should focus its efforts on value creation to the whole industry and customers.

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Gerdau: An International Company 

Total Capacity
(Includes Strategic Shareholdings)
19.6 million tonnes of crude steel
17.4 million tonnes of rolled steel products

- 38 Steel units
- 15 Downstream operations
- 70 Fabricated reinforcing steel facilities
- 6 Flat steel service centers
- 74 Retail facilities
- 24 Scrap collection and processing facilities
- 3 Iron ore extraction areas
- 2 Solid pig iron production units
- 2 Private port terminals

- Associated company**
- 5 Steel units
- 2 Downstream operations

- Joint ventures**
- 1 Steel unit
- 4 Downstream operations
- 5 Fabricated reinforcing steel facilities

- Gerdau Group Headquarters**



