



EXECUTIVE SUMMARY

FERROGRÃO ROADSHOW 2020

With the Ferrogrão Railroad auction (EF-170) approaching, the Brazilian government has decided to intensify the agenda with stakeholders, including potential investors and financiers for the project, whose studies have been under assessment by the Federal Court of Accounts since 7/10.

In this spirit, the Special Secretariat for the Investment Partnerships Program (SPPI) scheduled, between July 30th and August 7th, 2020, a round of 90-minute one-on-one meetings with previously registered stakeholders, in order to receive feedback on the proposed modeling for the concession and to answer possible questions about the new version of the draft public notice, the contract and its annexes, as well as the feasibility studies.

Below is the main information about the organization of the events.

The meetings were held by video conference. The first meeting of each day started at 9 am and the last one ended at 6:30 pm.

The publicity of the event started on 7/14/2020 and was made directly on the PPI website (<https://www.ppi.gov.br/roadshowferrograo>), through the publication of news where interested parties could obtain details of the event, as well as instructions for registering (by electronic form).

Moreover, a folder to publicize the event was sent to a list of qualified sectorial contacts, which SPPI developed and has continuously updated throughout events and meetings previously held.

During the meetings, the Brazilian government was represented by a team composed by delegates from the SPPI; the Secretariat for Development, Planning and Partnerships (SFPP/MINFRA) and the National Secretariat for Land Transportation (SNTT/MINFRA) at the Ministry of Infrastructure; the National Land Transportation Agency (ANTT); the Planning and Logistics Company (EPL); and the Executive Office of the Presidency of the Republic.

Based on the requests for dates and times submitted by the participants and some adjustments due to a few overlaps, the ultimate outline of the meeting agenda was as follows:

Schedule	7/30/2020	7/31/2020	8/3/2020	8/4/2020	8/5/2020	8/6/2020	8/7/2020
09h00 – 10h30	Pátria Investimentos				New Development Bank - NDB	VLI S.A	Salini Impregilo + Banca Intesa + Sace
10h30 – 12h00				Sacyr Construccion S/A	Bradesco BBI	Acciona	
12h00 – 13h30				Ecorodovias			
13h30 – 14h00	break	break	break	break	break	break	break
14h00 – 15h30		Sumitomo Corporation	CCR S/A	Hidrovias do Brasil	CCCC – China Communications Construction Company	Brasil Capital	China Railway Group (Crec 10)
15h30 – 17h00	CAF – Banco de Desenvolvimento da América Latina	Santander			Constellation	Itaú BBA	BNDES
17h00 – 18h30			Opportunity	Banco do Brasil		EDLP	

Regarding the profile of stakeholders, 11 out of the 22 meetings involved potential operators, concession controllers or builders (EPC). The other meetings were with players that would act as financiers of the project or with indirect / minor participation in the capital.

After each participant made a brief self-presentation, the SPPI made a 15-minutes presentation on the project (available at https://www.ppi.gov.br/html/objects/downloadblob.php?cod_blob=7989). Following the presentation, the Brazilian government team opened the floor for questions. During the one-on-one meetings, companies were asked about specific points such as the regulatory asset during the construction period, the risks allocated to the concessionaire and the level of attractiveness of the project.

Below we present a consolidated outline of the main considerations made by companies in relation to the concession of Ferrogrão:

Financial model and bankability

- The recognition of the regulatory asset for every 160 km of constructed railways would help considerably in structuring funding for the project. There is a need for banks, especially BNDES and multilateral institutions, to assess whether the model designed is sufficient to support loan guarantees.
- Questions as to the liquidity of the regulatory asset, about when the indemnity would take place. Aspect that slightly diminishes the benefit of the instrument.
- Assessments as to the construction time, whether or not there would be any margin for it being completed in less time, considering the high sensitivity of the project's IRR in relation to advancing / delaying the railway start-up. Greater concern with time for possession permit of real estate than working time in carrying out the work.
- Repeated questions as to whether BNDES and BASA intend to present the project's financing conditions (even if in general terms). "What is the role of the BNDES?"
- The grace period for financing seen as a challenge, since it is not the market practice.
- Possible upsides of the project, not considered in the modeling: i) low marginal cost of operation in view of a totally greenfield project (very competitive in price, which signals to the other competitors including other transportation modes); ii) possible cargos not mapped for now.
- Questions as to whether the project considered benefits from REPORTO, REIDI, SUDAM (Brazilian special tax regimes aimed at the development of ports, infrastructure projects and regional development in the Amazon, in that order).
- Importance of some dollar revenue or the possibility of other hedge mechanisms, even if partial.

Demand Risk

- Evaluation of the timing of the start-up of other railways planned for the State of Mato Grosso.
- Question as to whether there would be no mechanism in the contract to share the demand risk.
- Questions about who would be the operators of the stretches planned for railway expansion in the State of Mato Grosso. Application of art. 27 of Law 13.448 or express provision in Ferrogrão's contract.
- Questions about how exactly Ferrogrão's demand projection was made.
- Discussion on what would be the "best scenarios" and "worst scenarios" for Ferrogrão, in terms of intra and intermodal competition, compared to the base scenario of government modeling. Questions about how each competing player would act (game theory to assess strategic behaviors).
- Questions about the possibility of an Independent Railway Operator.
- Perceptions that bringing cargo owners or traders into the consortium would act as a demand risk mitigator.

Environmental and social aspects

- Questions about whether existing environmental liabilities would be under the investor's responsibility or how they would be dealt with. Questions about the identification of pre-existing liabilities in the Environmental Impact Study that is being prepared by EPL.
- Request for an easy exit option from the investor in the event of a negative environmental license. Importance of the effectiveness clause for Previous License.
- Land issues: despite the estimated low cost of expropriation, there are risks caused by uncertainty about the time for the areas to be cleared, overlapping enrollments, effective owners, property limits and land regularization in the region.
- Risk of exorbitant costs imposed in the environmental licensing process (speleological and archaeological findings, etc.), questions on who would assume such risk and whether there would be limits (Importance of the implementation of a clause regarding cap on expenses concerning socio-environmental conditions and possible risk sharing). What would be the government's strategy to manage this risk?
- Image risks, especially related to social aspects of the project, with the need to communicate the socioenvironmental benefits of the initiative very well, in order to avoid the bad faith of third parties. Question about what the government's communication strategy would be.
- Still regarding image risks, questions about the government's strategy to deal with consultations with indigenous peoples (ILO 169).
- The 2 indigenous communities close to the railroad are in urban areas (Itaituba) and other villages are at least 39 km away.
- Questions about how much the Previous License (to be obtained by the government) appease the environmental discussion, and how much would still be discussed by the investor in Installation License.
- Existence of studies related to the project's climatological risks.

Other topics

- Technical issues required for the railway, such as the imposition of construction in the direction Miritituba-Sinop.
- Explanations about what the contract requires regarding the railroad layout and project margin for the investor. Question about definition of reversible asset.
- Explanations regarding capacity and planning for ports in the North Corridor.
- Differences in relation to the previous figures (version of Public Hearing).
- Schedule: request for a reliable date for publication of a public notice and auction, in view of the need for preparation at all levels of the company.
- Clause providing for risk in the event of Acts of God or *force majeure*.
- Very important project from a strategic, social and economic point of view, and of high complexity.

FERROGRÃO ROADSHOW 2019

On October 3 and 4, 2019, the Special Secretariat for the Investment Partnerships Program (SPPI), together with the Ministry of Infrastructure, the Ministry of Agriculture, Livestock and Supply (MAPA), the National Land Transportation Agency (ANTT) and the Planning and Logistics Company (EPL) organized a round of one-on-one meetings with potential direct

beneficiaries of Ferrogrão's concession (owners of the estimated cargo for the railroad, freight contractors, grain traders, among others), with the objective of collecting subsidies and bringing them closer to the project, in order to make future commitments with the concession.

After invitations were addressed to the list of actors mapped by SPPI, meetings were held with representatives of the following companies / associations: APROSOJA; L.DREYFUS; BUNGE; BERTOLINI; CIANPORT; the Brazilian Confederation of Agriculture and Livestock - CNA; CARGILL; ADM; GORSKI; COFCO; Hidrovias do Brasil; Coop. C.Vale.

Following, there is a consolidated outline of the main considerations made by the companies / associations in relation to the Ferrogrão concession.

- There are more than 30 trading companies operating in the state of Mato Grosso, but which sell the production to the larger companies (mainly to ABCD + Cofco).
- About 60% of MT producers depend on trading companies, which contract freight and “discount” the producer.
- Request to make it clear in the contract the responsibility for building the branches in Mirituba.
- Need for good publicity about the project, in order to avoid bad faith of actors who oppose the initiative. Companies are sensitive to foreign public opinion.
- For most tradings, take-or-pay contracts would be limited to a maximum of 2 years, in view of the balance sheet restriction and the fact that they do not have a guarantee for the cargo (which they dispute between them). Deadlines longer than 2 years could be made, but for a much lower cargo volume than the trading company has historically traded on average, to reduce the risk of exposure.
- Much confidence in relation to the railroad load, in view of projections for a considerable increase in agricultural production in the state of Mato Grosso (27 million hectares of degraded pastures). Also possible upsides of the project for not currently considered cargo (meat, cotton, ores for both outbound and return, general return cargo).
- Investments of over R \$ 7 billion made by trading companies in port capacity and barges.
- Need for planning in the North axis to prepare for all the outflow (access to port terminals, waterway management, pilotage cost, etc.).