Conference Call Transcript
First Quarter 2003 Results
May 16, 2003

Operator: Ladies and gentlemen, thank you for standing by. At this time all lines are in a listen-only mode. Later, there will be a question and answer session. Instructions will be given at that time. If you should require assistance during the call, please press star (*) zero (0). As a reminder, this conference is being recorded.

At this time I would like to turn the conference over to Curtis Smith, from Thomson Financial. Please, go ahead sir.

Mr. Smith: Good morning ladies and gentlemen, and welcome to CVRD's conference call to discuss first quarter 2003 results. I'd like to mention that a slide presentation has also been made available on the company's website during the call, at www.cvrd.com.br

Before proceeding, let me mention that overlooking statements are being made under the safe harbour of the Security Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comment as a result of macroeconomic conditions, market risks, and other factors.

With us today in Rio de Janeiro is Mr. Fabio Barbosa, CVRD's chief financial officer. Mr. Barbosa will comment on the first quarter 2003 results, and afterwards management will be available for a question and answer session.

It is now my pleasure to turn the call over to management. Mr. Barbosa you may now begin.

Mr. Barbosa: Thank you very much. Good morning ladies and gentlemen. First of all I would like to add to the disclaimer just made by Curtis, the following; pursuing to regulation G issued by the security and the exchange commission, some financial measures like EBITDA, EBITDA margin, EBIT, free cash flow, investment, and EBITDA in these expenses are non-gaap. The SCC specifically states that the definition of non-gaap financial measures, includes any measure of performance or liquidity that is different from that presented in the financial statements or cash flows computed in accordance with the gaap.

Let's now begin with… We made available a presentation in our website as Curtis mentioned, and we start with the agenda, first with some highlights for the first quarter, the outlook for the market and the company, and some improvements we just made in terms of transparency and accounting procedures.

First, on the highlights, I would like to mention that CVRD had a very solid performance in a very gloomy world for the economy, in fact, the world economy is growing much less than most analysts anticipated, and facing a much harder environment than previously thought. But the fact is that CVRD managed to get net earnings of US$ 354 million in the first quarter, and a very strong EBITDA in our view considering all the difficulties we faced in this quarter – US$ 442 million. In fact, where the problems affected the shipment in the first quarter of 2003, compared to the previous quarter, we have a very heavy rainfall season affecting our operations in the Southern system, and not only the logistics and the facilities, but also we had some problems in the Gongo Soco mines that right now is resuming its normal activities.

In this context we are actually operating at full capacity, and in this period as in the previous quarter we had to buy more iron ore from third parties than historically we had. So it was a very strong quarter for CVRD for the iron ore industry as a whole, and we are facing some supply constraints mainly due to logistics and the required investments in mind.

At the same time, we had a good performance in aluminum chain, bauxite and alumina, manganese and ferrous alloy scaling and logistics; general cargo has performed very well. Potash sales, we are facing again supply constraints, our expansion is taking place, but the production will only be able to be increased by 2005 with the conclusion of the current investments, and right now we are running above nominal capacity in our Taquariba's mine.

As for gold, as you know, in December, the fourth quarter, we made a provision for the depletion of our Fazenda Brasileiro Mine, and in the first half of 2002 we still had Igarapé Bahia in production, so the reduction of gold sales is in line with this exhaustion of the mines has been informing the market.

And finally, I would like to inform that our growth projects are on schedule, and we hope to be giving some projects getting ready before original schedule.

The next slide shows you the volatility of our quarterly earnings due to the currency volatility combined with our net exposure to the exchange rate. As you know, we face a domestic market in which the opportunities of funding at reasonable costs, are very strict. I would say that BNDES is virtual monopolist of credit at reasonable terms for Brazilian companies like ours with a capital intensity, with very large investment programs. So we have to borrow abroad and the result is a net exposure that will not affect our short-term cash flow, but has an important impact over the net earnings line.

The next slide shows you the new methodology we adopted to estimate the EBITDA. We have been studying the procedures of several companies, and we found more appropriate to adopt this new methodology, that the basic difference that we are now adjusting the EBITDA figures for non-recurring items, instead of cash versus non-cash items. We think that this methodology is much more in line with the general market practices, and according to this new methodology we showed EBITDA figure of US$ 442 million - it's 11% above the same period of last year. In 2002 was 397 million dollars, and slightly above the fourth quarter of 2002 despite the reduction in shipment we saw in the first quarter of 2003. So, our perception is that the performance of the company was very strong in the first quarter, despite some adverse conditions we faced.

In fact, the next slide shows you iron ore and pellet shipment that although constrain by mining logistic capacities, if we compare to the first quarter of 2002, there was an increase of about 15%, from 36.7 million tons, to 42.5 million tons. And I would like to highlight the performance in the pellets' sales that was much stronger than in the first quarter of 2002, given the current market situation where the demand for pellets had been very heated, and the same was observed in the fourth quarter of 2002. So considering the rainy season I've mentioned before, and the logistic constraints, the increase of about 15% over the first quarter is remarkable.

Turning to the next page on the numbers for logistics, also in spite of all those difficulties, we see that FCA general cargo increased some transportation services from 1.8 billion net tons per kilometer to 2.2 net tons per kilometer - a major increase - if you also consider that the operations of some railroads have been solved by the rainy season as well.
So, although slightly below the fourth quarter that had more days as you know, two days more, but in the comparison with the first quarter of 2002, we think that the performance was very good. And as for Carajás, is pretty much in line; 664 first quarter of 2002, 662 first quarter of 2003. And the same goes for Vitória Minas, the very marginal reduction compared to the first quarter of last year.
Behind this good performance is a very impressive productivity gain that we have managed to get in the logistic business, and the main variable there, is reliability. In the first quarter of 2003 we reached a world record in terms of reliability for the Carajás railroad. We managed to get to 10 million linked kilometers between failure, a general indicator for this category, and indicating the very strong reliability of our railroad in Carajás, and beating the previous record that was 9.3 million kilometers, an Australian railroad. Also, the Vitória Minas railroad has increased the million tons per kilometer per active loco per day, from .74 to .90 in the first quarter of 2003. It's a major increase and very much in line with the asset automization that we are looking for.

Turning to the outlook. As we commented before, we live today in a challenging business environment. Although there are some very weak positive signs in the European economy and the US economy, we do not have yet a very clear view of a strong recovery in the world economy. We think that again this year we will see below long-term trend world GDP growth, and this may affect overall business in several sectors.

The other side, as you turn to the next page, you see that the net of the mining sector may have a different performance due to the growing demand in China. China in fact continues to grow in a very strong pace. The first quarter GDP was almost 10%, 9.9% growth over the same period of 2002.

So far, although SARS is a major concern, but so far SARS has not caused any reduction, any deceleration in iron ore demand in China, particularly in China but throughout the world. So China is driving the sector in metals and mining, and we are very well positioned in the Chinese market and in Asia in general. We now have China as our top client in terms of country, with about 20% of our total exports. So China continues to perform very strongly, there is no sign of deceleration either in China and other markets around the world.

I would like to mention as well that the steel production rose by 8.8% in the first quarter of 2003 compared to the same period in 2002. China grew by 18%; Japan over 8%. And the steel output is growing at much faster rate than the world output, and this of course has had positive impact over the iron ore industry as a whole.

Turning to the next page, I would like to comment a little bit on the appreciation of the Brazilian Real; in our view, it has a limited negative impact in short-term cash flow, and iron ore prices should have a much more powerful effect. We also do not think that the current appreciation, the current trend appreciation will prevail over the mid term and due to the balance of payment constraints of economy, but in our view the appreciation has had a limited impact, and we are very positive regarding the future performance of our cash flow, particularly due to the current discussion on prices.
On the other hand, I would like to mention that the other side of the coin of a more appreciated Real is a reduced Brazilian sovereign risk, so with a potential reduction in our waited average cost of capital.

The next page shows you that in our view there is a very strong indication by the market of how the iron ore industry is in pressure by the demand. There is a supply constraint, and the freight behavior is signaling a global excess of demand for iron ore. As we see, this chart shows you that in similar situations in the past, there were major movements in iron ore prices, and let's see how the negotiations will turn out to be.
Iron ore prospects, in our view, we see the seaborne trading increasing by 30 million tons in 2003 and again, we would like to highlight that we see a major supply constraint in order to meet this additional demand. All of competitors and ourselves, we are working at full capacity. Last Tuesday I visited the Tubarão port, and Vitória, and there were 15 ships waiting for being loaded, and there is no change in this situation, and has even increased the number of ships I saw the last month I went there. So supply constraints are very clear, we are investing in the expansion of our mines, we are investing in additional logistic capacity, but in the short-term we have to cope with these difficulties in order to try to reach market demand that we are estimating to get to 510 million tons ladder in 2003. So the situation may prevail over the next year as well, as the investments we are making right now not be concluded before that.
We think that we'll have to continue to buy third parties' iron ore this year due to those constraints. We are this year, the Capanema mine is being exhausted, and we are investing to, not only replace this and the other two mines, Corrego Negro and Tibopeba in the next five to six years, but also to deal with the increased demand. But in the short-term we may have as a caution, we may have to continue to buy iron ore from third

parties, and maybe to extend this procedure until 2004. So they are needed, as we mentioned there, to meet commitments with long-term contracts, clients that we have a long-term relationship, and we have to meet their demand, but that means that we have to be very active in this sort of secondary market of iron ore. And those purchasers in a way could be seen as playing the role of a swing producer alternating or trying to accept short-term constraint due to no anticipated demand movement. And also, in another way, we could see it there is a short-term pressure on margins, but there is a marginal contribution to returns on the investors' capital because we are using other parties' capital to get the ore.
As we mentioned, we are investing in additional mining capacity, and the elimination of logistic debottleneck, our main investments are in the Carajás mine. We are trying to increase this capacity to up to 70 million tons by 2005. Also, we are investing in the mines of Brucutu and Fábrica Nova in the Southern system. But let me say that the three mines I mentioned that they are being depleted, we are going to lose about 12 million tons up to 2008 in production capacity out of those three mines. So there is an effort to replace those mines, and an additional and very strong effort to cope with the very strong demand that is being provided by the market. At the same time, we are also investing in expanding our logistic capabilities through our Pier 3 facilities, the Ponta da Madeira port, the Northern system, and also improving ship-loading capacity in the Tubarão port, together with the acquisition of locomotives and wagons in the first quarter of 2003.

Turning to the next page, I would like to mention, to make a comment on the alumina. We saw in the first quarter of 2003, a major pressure on prices some reaching about US$ 270 per ton, a very high level that will, with this market condition, Alunorte - the third stage of Alunorte plant that we just started in the first quarter, has come to achieve in a very good timing, and we will certainly enjoy this current market condition because we do not expect that aluminum prices will show a different trend in the next 18 months. In fact, there is a alumina deficit as you can see in the next chart, anticipated by crew for 2003 and 2004, and Alunorte is the only expansion that came to the market, and I would say in a very good timing. Of course we one should not ignore there is an excess of supply of aluminum and some large inventories in the market. But we think that by 2005 this market should be more balanced due to the very pressure the alumina prices could exert on the market, and also potential for shortages that could constrain supply in the near term, mainly in the U.E., so we think that, in short, that the alumina prices will remain precious for the near term, up to 18 months, we agree with the crew analysis. But also, the aluminum market should be more balanced from 2005 onwards.

As for the logistic services, we would like to mention that we also have demand pressures, and we also have unattended demand in Brazil for our services for general cargo. There is a record, an all-time high grain crop this year in Brazil. We have new contracts signed, and frankly, we are facing the same situation we see in the iron ore business. We have much more requests for logistic service than we are able to provide, so we are acquiring new locomotives and wagons. We may capture an important part of market opportunities, but again there is a supply constraint due to the unavailability of locomotives and wagons in the very short-terms. We are buying 106 locomotives, and about 2000 new wagons, but they will be put in track over the year, but demand is already there, and very strong.

Finally, on the last chart I would like to mention I think this is an important answer we owe to the market regarding transparency after what happened in the first quarter. We are investing heavily in a new ERP system for CVRD, trying to consolidate over 350 different systems we have in our company, and this investment is taking place, it started in the first quarter of 2003. In parallel to that, we are implementing the high Hyperion system to provide the tools to consolidate in U.S. Gaap and Brazilian Gaap, on a very fast basis all the information required to inform the market. We hope that this system is already in implementation, and should be ready by year-end. Also, we adopt now the review by independent accountants of our quarterly financial statements. So all Gaap figures are reviewed by independent accountants from the first quarter onwards, I think it's an additional improvement that we would like to inform the market about that, and I think it's very important for our investors and the market analysts in general.

As I mentioned before, we also adopted a new methodology to compute the EBITDA figures, and the non-Gaap figure, but we think it's also an improvement compared to the previous concept. We had been discussing internally this issue for some time, and now we agreed that we should show the EBITDA figures in the new methodology much more in line with general market practices.

We also promoted some changes in term of process of accounting of consolidation with a much quicker response from our controlled companies in providing information to us, and helping us to consolidate the information and providing sound and timely information to the market. And finally, we are in a strict compliance with regulation G just issued for companies that have shares traded abroad.

Well, those are my initial comments. Myself, Roberto Castelo Branco, and Gabriel Stoliar and other people from my team, we are here available for any questions you may have. Thank you very much.

Operator: Ladies and gentlemen, we will now being the question and answer session. I would like to mention that today's conference call is being held exclusively for financial analysts and investors. We kindly ask reporters who may be participating in this conference call, to please direct any and all questions to the company's press relation department.

If you have a question, please press the star (*) key followed by the one(1) key on a touch-tone phone. If at any time you would like to remove yourself from the questioning cue, press the pound (#) key. Please restrict your questions to two at a time.

Our first question comes from Mr. Sebastian Luparia with JP Morgan.

Mr. Luparia: Yes. Good morning Fabio, Roberto. A couple of questions today on the quarter; first on the iron ore market, if you can comment a little bit on shipping rate. In the press release you had a lot of details and relationships regarding the iron ore market, but can you comment the reason of the increase that you saw in shipping rate; how much was due to higher insurance costs and the increase in oil and energy prices?

Mr. Barbosa: Well Sebastian, thank you for your question. The bulk of it is oil. It's insurance we had effect of the September 11th throughout 2002, and the reason it impacted is mostly due to the oil prices that affected the cost, coupled with the very strong demand that had prevailed the market, as you know.

Mr. Luparia: Okay. So you are also recognizing that the old prices had an impact, and also it might be that this time the relationship is not that strong. Is that correct?

Mr. Barbosa: Pardon. Sorry, could you repeat please.

Mr. Luparia: Yes. What I am saying is that you recognize that other parts, who have been also affecting shipping rate so this time, despite the strong demand for the tight market, those parts are also affecting the prices and the costs?

Mr. Barbosa: Yes.

Mr. Luparia: OK. OK Fabio. And also regarding the iron ore market, we recently saw an anti-trust investigation in the copper market, which involved a whole lot of producers. What's your view on that? Do you think that to have any impact in your relationship with the European Community and what has been going on with Caemi especially after the extension that was requested by the European Community?

Mr. Barbosa: No, not at all. It's a different market. As you see, we are debating with our clients for almost six months now, and it's a completely different configuration of market in the copper. And I would like also to mention that in this stage there are just asking some questions regarding the market. There is no formal action against the companies that are dealing with the copper.

Mr. Luparia: OK. And Fabio, in the iron ore market, talking about acquisitions from third parties, can you comment if you've been buying anything from Casa de Pedra, and how much was the volume if any news today?

Mr. Barbosa: Well, it was just a one-time operation we did in the first quarter, and in the second quarter we commented this on the press conference yesterday, but it was just one shipment. I don't have the precise figure, two million tons, two million tons from Casa de Pedra.

Mr. Luparia: OK. And my last question is regarding Capex; in the quarter it was US$ 240 million. If you analyze that level you get US$ 1 billion for the year - well below your budget. Are you planning to change your budget or you're still maintaining the 1.8 billion for the year?

Mr. Barbosa: No. It's natural to have a weaker performance in the first quarter. So far we haven't reviewed our estimated Capex for the year.

Mr. Castelo Branco: Sebastian, I would like to add that US$ 1.8 billion dollars one non-gaap basis. It includes capital expenditures by affiliates and joint ventures that would be spent from their own cash flows. For the gap basis only it's a little bit less than that. It's 1 billion and 550 million dollars. That's the budget for CVRD on a consolidated basis.

Mr. Sebastian: Okay. Great. Thank you very much.

Mr. Barbosa: Thank you.

Operator: Ladies and gentlemen, I would like to remind you all that the questions are to be restricted to only two at a time.

Our next question comes from Mr. Andres Perez with Morgan Stanley.

Mr. Perez: Hi. Good morning Fabio and Roberto. Just very quickly; on the planned integration with Caemi, I want to know if you qualified any of the potential synergies, also some of the growth opportunities that you are looking there, assuming that this is approved, and also the same question for the rail units.

Mr. Barbosa: Thank you Andres for your questions. As for Caemi, we think that we can intensify the exchange of information, or we can optimize the procurement procedures and costs. But Caemi, as we mentioned in our press release, will remain as an independent company. So that's the way we see Caemi, and Caemi has its own growth plans, its computed investments plan, and will reach 36 million tons capacity by the end of this year to 2004. So, that's it for Caemi.
As for the Real, I think that Real reached a level of appreciation that could be well ahead of in other words, could be another sort of over-shooting in terms of appreciation. But we are not counting on that. We think that we had, as Roberto mentioned yesterday, we had very difficult situation in terms of logistics, quoted materials, and third parties in the first quarter. We didn't have yet the conclusion the iron ore prices, so we still didn't have the benefits of the current very tight market conditions in which we have to buy more materials; we faced a high increase in terms of oil. The domestic price of oil did not increase in line with the appreciation of the exchange rate and the oil prices the international oil prices. So I would say that we should consider not only the exchange rate that should reflect a long-term equilibrium of balance of payment, and I have some issues regarding the current rate on this level, but we should also consider the other aspect of our first quarter results. And just coming back to the Caemi issue, although we have those issues of information and procurement, as a major synergy we are expecting

the acquisition was concluded, will allow us to incorporate Ferteco fully in CVRD with very high synergy gains, as we are expecting.

Mr. Perez: OK. I am sorry. The second part of my question was about the rail units, the ferrovias.

Mr. Barbosa: Oh, sorry. I understood the Real. Sorry. Could you repeat please?

Mr. Perez: It's just basically along the same lines with recent transactions that you did in CSN.

Mr. Barbosa: Oh. Sorry.

Mr. Perez: rail units. What are some of the synergies and the growth opportunities that you're, you know, that you are forecasting, that you can take advantage of now.

Mr. Barbosa: Well, basically we are increasing our share in the FCA. We are asking the authorities to allow us to invest and to increase our total share up to a level that would allow us to even consolidate in U.S. Gaap, also we would like to capitalize that company, because it's an important way of transportation for general cargo to increase our business in general cargo. And we are getting of CSN and Sepetiba Terminal, because they would not fit entirely our overall growth in strategy in terms of the logistic business. So our aim is to increase our shares in FCA to consolidate it, to capitalize it, and to increase our business in general cargo.

Mr. Castelo Branco: It's important to say that the FCA is a key railroad in our logistic network as it's being integrated with the Vitória Minas railroad and the port of Tubarão. There is another stretch that links the Triangulo Mineiro region, which is a very rich agricultural region to Campinas, which is a major Brazilian manufacturer center to the port of Santos, and we have been developing a lot of initiatives carrying soybeans from the center-west to FCA, to the port of Tubarão. We have been launching scheduled trains that links for instance Campinas to the northeast of the country carrying auto-parts to the car factory plant of four more company in Salvador, bringing fuels and petrochemical products from Bahia to the southeast, fertilizers from the port of Tubarão to the west. So it's contributing to boost our logistic service revenues.

Mr. Perez: OK. Great. Thank you.

Operator: Our next question comes from Mr. Daniel Altman with Bear Stearns.

Mr. Altman: Hi. It's Daniel from Bear Stearns. The third parties' shipments, it looks like over the last couple of quarters you've been buying increasing quantities, and I say that just by looking at your cost of goods sold, and yet your overall shipment volumes didn't go up in the first quarter. I'm wondering why that was the case, and if you could give us an idea of where your maximum capacity is, not including third party shipments for both this year and next year. Thanks.

Mr. Barbosa: Sorry Daniel. Could you repeat your question, please? Sorry, didn't get it.

Mr. Altman: Okay, I'll try. The first question was if we look at your cost of goods sold, the third party acquisitions seem to be increasing over the last couple of quarters, yet your overall volumes did not increase in the last couple of quarters. So I'm wondering why that differential, why are you buying more third parties but not selling more. My second question is what is your capacity on a quarterly basis using your own iron ore, and then for both this year and then next year given the expanded capacity.

Mr. Castelo Branco: Daniel, first of all, we have increased iron ore sales. As a matter of fact, first quarter 2002 was a record high level of sales in the history of CVRD, but we've been achieved through the acquisition of more iron ore, more volumes of iron ore from third parties, and it represents roughly 10% of our iron ore sales. As Fabio mentioned, we are investing about 500 million dollars in new mines like Fábrica Nova and Brucutú and the expansion of Carajás, to cope not only with the current excess demand, but to replace mines that will be exhausted in the next few years, but to add new capacity in order to meet the future evolution of demand. So, as we said, purchases from third parties are likely to peek in 2004. Then, with these investments they will be reduced to the minimum required by blending requirements from certain specific clients.

Mr. Altman: In the first quarter you reported 42 and a half million tons approximately, I mean, in the fourth quarter you reported roughly 44 million tons. It was down a million and a half, but in your cost of goods sold your acquisition of iron ore and pellets went up by about 22 million dollars. So that's the part that I didn't understand.

Mr. Castelo Branco: We have to buy additional volumes because of the problems with the Gongo Soco mine. As we mentioned due to the heavy rainfall, the Gongo Soco mine was obliged to paralyze its activities, then it resumed but at less done its nominal capacity.

Mr. Daniel: Okay. And you will in 2004 You will have more of your own capacity versus 2003?

Mr. Barbosa: Well, we expect that we still have a strong participation of third parties' iron ore because we do not see additional capacity in place at the near term 2003, early 2004.

Mr. Daniel: OK. Thanks.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Marcelo Kayath with Credit Swiss First Boston.

Mr. Kayath: Good morning gentlemen. Some of my questions have already been answered, so the question that I still have is that I noticed in your press release that you mention that Gongo Soco mine, where you had an accident in the first quarter, will only come back to full production in the end of May, if I remember correctly. So it seems by reading that that the first full quarter where you have Gongo Soco back to full normal production is going to be the third quarter. So since you mentioned many times the problems you had in the first quarter with rains, delays, shipments, production, transportation etc, could you give us a sense of how the second quarter is going, in terms of measures that you're taking to alleviate some of the problems that we saw in the first quarter? And is my assumption correct that the third quarter could be the first quarter where we will see a more normalized if we can say that a normalized production from CVRD? Thank you.

Mr. Barbosa: Thank you Marcelo. Yes, the third quarter we should see Gongo Soco operating its regular capacity. What we are doing to deal with these problems we had, first we are buying more locomotives, trying to anticipate the acquisition of those locomotives and we just concluded a negotiation with Ferro Norte in order to buy 22/9 locomotives that did not fit quite well their needs. It was a long negotiation because they are also facing an excess of demand for their service, but we managed to get there. And if you recall initially our aim was to buy 17 hundred wagons and we managed to achieve now a total of 2000 wagons for 2003, instead of the 17 hundred originally anticipated. We are also working very hard to put Gongo Soco at full capacity very shortly in order to resume normal operations, but we still face supply constraints, and as you know very well they will not be solved in the short-term.

Mr. Kayath: Fabio, do you have any estimates as to what your operating margins would have been with a more normalized production or shipments, or let's say that third party ore was back to normal, something like 2 or 3 million tons a year, what kind of operating margins would we see instead of what we are seeing right now?

Mr. Barbosa: Marcelo, you have been extremely competent in following our company's figures. I would not dare to challenge you in this business. I would say that we had a lot of cost pressures in the first quarter that could be non-recurrent, and I would say that it's much more a temporary situation than a permanent one, and it was a conjunction of several issues that affected the margins, but we see a brighter future ahead.

Mr. Kayath: Thank you for your compliment, but let me just get back to my original question. These, from what you are saying, it seems to me that the chances of your margins getting to a level that would make us happier, are higher in the third quarter than the second quarter. Is that correct?

Mr. Barbosa: Marcelo, I should avoid to make forward statements of this nature. There are a lot of conditions that we should consider. We are in the midst of price negotiations. We faced a non-typical appreciation of the Real. We saw just yesterday you saw the result of Petrobrás indicating that a very strong cash-flow generation that is related precisely with the combination of high oil prices, appreciation of the Real, and non reduction of domestic prices for oil. I think that this is a combination that should not be repeated in the near future, and prices should be defined by them. So that's what I can say right now.

Mr. Kayath: But you have not had any other accidents, disruptions, problems with transportation, anything of that sort so far in the second quarter?

Mr. Barbosa: No. So far no, but we haven't reviewed full capacity of Gongo Soco. But as you know, we are operating in the limit of our capacity. So we did not observe, we are not expecting any major problems, but we are operating at our very limit of our nominal capacity.

Mr. Kayath: OK. Well, thank you very much.

Mr. Barbosa: Thank you.

Operator: Ladies and gentlemen, I would like to remind you to please restrict your questions to only two at a time.

Our next question comes from Mr. Manuel Salazar with Santander.

Mr. Salazar: Yes. Good afternoon gentlemen, just two questions. The first one has to do with the sales mix of iron ore, and I understand that in total, sales were down because of the Gongo Soco problem, but looking at the percentage of pellets to iron ore, there was also a reduction there. I just wanted to know if that was due to a shift in demand, or is also in same way related with Gongo Soco. And my second question goes back to the freight costs, and looking at my notes from the first quarter of 2002, and talking about Chinese demand and how much of a premium they were willing to pay, at that time I was told that they would be willing to pay about US$ 8 per ton, premium over Australian ore, and looking a your press release, I see that we're basically down to that difference in freight costs. So what could we see going forward from Chinese demand if freight costs continue to increase?

Mr. Barbosa: Thank you, Manuel, for your question. On the first question, the sales, I would remind you that we had two days less in the first quarter of 2003, compared to the fourth quarter of 2002, so we have a very regular daily production capacity, so this should play a role there. Also, as we mentioned before, we had the heavy rain season in the first quarter that affected not only our mining production but our logistic capacity, and if you look down to the first quarter of 2002, we are showing an important increase, over 15%, on the same quarter basis, so but of course, you were right, due to Gongo Soco problems, we had to buy more iron ore from third parties, as Roberto Castelo Branco mentioned before. But I would look at the seasonality and also the very specific problems we had in the first quarter.

Turning to China, the freight costs spreads are close to this level of US$ 8. But I would say to you that the problem we have right now is that we have much more requests for iron ore than we are able to deliver. In fact, despite this cost increase, the demand for iron ore in China remains very strong. In annualized base they should be importing this year 23% more than last year. They will be the top importer in the seaborne trade, and we are fighting to keep our market share there, as we managed to do in the first quarter with the increase of 22% of our shipment to China. So despite this very important cost increase on the freight spreads, we have no signs of deceleration of Chinese demand for our iron ore.

Mr. Castelo Branco: If I may add, China needs to increase its steel output, and they have to increase the number of blast furnace but at the same time to increase the productivity of the blast furnace. Then there is a quest for high Fe content iron ore with high Fe content. The highest ones are the CVRD ores, much higher than the Australian ores, and much, much higher than the Chinese ores. So they need to buy our iron ore in order to increase the productivity of the blast furnace. In terms of capital costs, it's better to increase the productivity of an existing blast furnace than building an additional black furnace with low productivity, so they are likely to increase the purchase from CVRD, and it's in the future it's likely that we can even increase our market share in the Chinese market. If the Chinese market is different from a mature market like Japan and the European Union, where these are economies that are subject to economic cycles, then in the upturn they buy more high Fe content iron ore, more pellets to increase productivity, and in the downturn, when they don't need high productivity, they reduce the acquisition of high quality products, buying less high Fe iron ore and less pellets. But to summarize, the conclusion is that freight rates and freight rates differential are much more an indicator of the strength of iron ore demand than a signal of lack of competitiveness of CVRD. The historical series from 1980 till 2002 shows the history, and you can see here, there is a graph that Fabio showed that demonstrates that high freight differentials are coincident, or are correlated with iron ore prices.

Mr. Salazar: OK. Thank you gentlemen.

Operator: Our next question comes from Mr. Jorge Beristein with Deutsch IXE.

Mr. Beristein: Hi. Good morning gentlemen. I'll limit myself to two questions. The first one, I think we've all been dancing around this issue. Could you just try to quantify in U.S. dollar terms what the impact was from the rains, and the exceptional third party purchases in the first quarter. In other words, you reported EBITDA in the 440 range, and what would it have been without these extraordinary impacts?

Mr. Barbosa: Thank you Jorge for your question. I would mention to you that we have an additional cost, buying from third parties and I would estimate this additional cost in US$ 28 million roughly.

Mr. Castelo Branco: And additionally there is the demurrage cost that right now the average is equivalent to 1% of the FOB price of iron ore.

Mr. Beristein: So, sorry, it would be fair to say that you faced a roughly US$ 30 million decrease in the EBITDA in the first quarter reported because of these extraordinary impacts?

Mr. Barbosa: **I'd think the same, you'd be correct, but I would recall you that you cannot isolate a single element and to generate a new EBITDA for that purpose, we have some non-typical aspects regarding logistics, the appreciation of the Real, oil prices and so on and so forth. I wouldn't do that.**

Mr. Beristein: Okay. My second question is; can you quantify the net new capacity CVRD will have for total volumes in 2003 and 2004 in terms of a percentage increase? Will you have a net 5% extra capacity in 2003?

Mr. Barbosa: Well, We are in the process of ramp up of our pelletizing plant in São Luis, and our best effort is to follow world market growth. That's what we are expecting to do, so they should grow in line to keep our market share that was 29.4% last year.

Mr. Castelo Branco: For the time being the São Luis pellet plant production is being constrained by the capacity of the Ponta da Madeira port. So when we have the Pier 3 on stream, we'll be able to expand the production of the São Luis pellet plant. This will happen on the first quarter of 2004.

Mr. Beristein: OK. Well, it's just that I am trying to sort out the impact between your sales volumes, which were increasing overall, but heavily blended with a large amount of third party iron ore, and what net debt you were able to increase capacity from in-house production. So, do you have a percentage if you could kindly give us, including all debottleneck and...

Mr. Barbosa: I would work...

Mr. Beristein: ... facilities and everything?

Mr. Barbosa: Sorry Jorge. I would work with a slightly higher figure for third parties, from what we observed in 2002, that was about 7 and a half million tons. I'd like a higher figure for 2003. That's what we would be considering.

Mr. Castelo Branco: We believe that in 2004 we'll reach a peak in purchases from third parties, then they will come from 2005 on to the normal level that we in general buy 2 million tons of iron ore in the southern system to blend with our own iron ore to meet specifications from clients, when we have some new mines starting to producing the expansion of Carajás.

Mr. Barbosa: Mines and logistics.

Mr. Beristein: Thank you.

Operator: Our next question comes from Mr. Paolo Di Sora with Banco Itaú.

Mr. Di Sora: Hi Roberto. Hi Fabio. My question is still regarding volumes. I think we are trying to figure out what is the capacity of CVRD for 2003 and 2004. If you could clearly address what's your capacity for this year and for next year, and how much iron ore from third parties are you planning to buy this year and next year, so that we could have a clear understanding what kind of volumes you're going to face in these next two years as demand is already there and the clear problem is the capacity of the company. So I think all analysts would like to have a clear understanding of that.

Mr. Barbosa: Okay Paolo. Thank you for your question. I would work roughly about up to 10 million this year, acquisition of third parties, and 12 million next year. And as the overall capacity, you could get from considering that CVRD will try to grow in line with the market growth. So that would be our view on the issue.

Mr. Di Sora: OK. And could you give us some kind of figures about the latest development of negotiation iron ore? If you could give us the latest negotiations you are facing, and when you expect iron ore new iron ore prices to come out.

Mr. Barbosa: Well Paulo, we are still discussing with our clients, ourselves, and we think that the negotiations should not take much longer, but we don't have any indication of the actual closing of the negotiations. But what we of course we observe is that there is a strong market there, there's a supply constraint, and the negotiations should reflect the positions.

Mr. Di Sora: Thank you Fabio. Thank you Roberto.

Mr. Barbosa: Thank you Paulo.

Mr. Castelo Branco: Thank you.

Operator: This concludes today's question and answer session. Mr. Fabio Barbosa, at this time you may proceed with your closing statements.

Mr. Barbosa: Ladies and Gentlemen, thank you very much for attending the conference

today. I hope we were able to clarify all your issues regarding our first quarter results, and again I would like to state that we continue to work on the improvements of our internal procedures, our accounting procedures, and our systems, in order to provide reliable and timely information for you.
Thank you very much.

Operator: That does conclude our CVRD's conference for today. Thank you very much for your participation. You may now disconnect.