
Conference Call Transcripts

First Quarter 2004 Results

May 14, 2004

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'd like to turn the conference over to Thomas Karsten from Thomson Financial Investor Relations. Please go ahead, sir.

Mr. Thomas Karsten: Good afternoon ladies and gentlemen and welcome to CVRD's conference call to discuss First Quarter 2004 results. I would like to mention that a slide presentation has also been made available during this call at the company's website at www.cvrd.com.br.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Security Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments 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. First Mr. Barbosa will comment on the First Quarter 2004 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 afternoon ladies and gentlemen, it's a pleasure to be with you today. We will comment on the First Quarter results of CVRD. Then we will talk a little bit about China; I think it's a hot issue right now. And finally, we will end this presentation with some comments on our projects of 2004 and beyond.

Performance: we believe that we had a great performance in this quarter. Revenue growth reached 46,1% and this was, of course, partly due to the price changes, price increases that we managed to get this last few months, but also by larger volumes we were able to sell. So, showing this strength of our operational performance: Iron ore is 28,7% more in volume; ferrous alloy 76%; kaolin 163%, to name a few. This figure shows the strength of our performance in the First Quarter and why we achieved the very good results we announced two days ago.

As for iron ore and pellets, we still have our growth constrained by CAPAZ, but I would say that even with this limitation we posted very good results. Almost 53 million tons of iron ore and pellets, that compares to the First Quarter of 2003 a 42.5 million tons, so over 10 million tons more of sales on a quarter-to-quarter basis.

In terms of our sales revenue distribution, yes, the iron ore, pellets and manganese and ferrous alloy, the ferrous division, response for 70% of our total revenues; Aluminum, the aluminum chain, it's a growing business within CVRD's revenues, 13,9% and could grow even more with consolidation of Alunorte taking place since 2002, and then the expansion the results the aluminum chain would be more visible. And the future expansion of stage 4 and 5 will help in the same direction, coupled with the bauxite expansion of MIN and the future Paraguaminas. So the aluminum chain tends to grow, tends to grow in our overall gross revenues; logistics general guards 11,3%, kaolin potash 4,9%.

In the next page, if you turn to the next page, we show a very good performance in terms of our EBIT margin, jumping from the results we posted last quarter, in which we have several one-off adjustments, as you know and then, I would say that we turn back to our normal, usual margin, as you can see by the figures there in our EBIT margin turning 32,9%. Of course there is a major effort in terms of cost control as you, most of you, recorded in several reports, and, of course, prices helped in the same direction.

If you turn to the next page, you will see that what we mentioned there is across the board excellent operating performance and ferrous minerals 36,9% against 32,6% in the Fourth Quarter; the small change you compare to the First Quarter of 2003, relates to the relatively appreciated exchange rate in this quarter, compared to last years, and also the consolidation with CAEME.

Good margins in logistics, general cargo, improving sharply from the first quarter of 2003, the fourth quarter of 2003, in which we made again, several one-off adjustments, and not as much as in the First Quarter of 2003, due to the, again, exchange rate that had a very positive effect last year, and this year the nominal exchange rate was virtually unchanged.

Aluminum had a price effect and also they increased the scale of operation that helped us to achieve this very positive results and EBIT margin reaching 24,5%.

Coming back to the logistics, a segment of our business is specifically FCA performance. We are implementing several structured measures to improve its overall performance, its operational performance, and also to improve its operational safety. We are aiming at doubling cargo transportation up to 20 billion net tons per km by 2006, from 10 billion net tons per km, in 2003 – this is feasible, this year are buying locomotives and almost 2,000 rail cars to put in our tracks there, in FCA and this will help to increase our productivity by 46%, as you see there, from almost 1,400 net tons per km per HP (horse power) in 2003 to 2,000 in 2006. And finally, we are working on reducing the fuel consumption by 6% in this very year of 2004 and given the recent oil prices in the very timely measure.

In terms of earning performance we continue to be very well placed, for companies importing quarterly, we were the top company in terms of earnings of US\$ 405 million, well above ALCOA with US\$ 355 million. So, a very good performance, and helped of course by a very strong cash generation. If you go to the next page, our EBITDA reached a record level of US\$ 685 million and for the eight consecutive quarters, it showed a positive growth rate.

It was a very impressive performance, of course, again, we had the positive impact of prices but we also showed discipline in our costs; we were helped as well, by the consolidation of new companies, CAEME and FCA. FCA posting a positive EBITDA in the first quarter, small, but positive, US\$ 2,373 billion, a very, very strong performance and the bulk of this EBITDA generation was the ferrous minerals division 74% - almost 3/4th of total EBITDA generated in this area. Logistics contributed with almost 11% and aluminum chain with 12.1%.

I would also like to comment on our financial structure and, again, to highlight the strengthening, the continuous strengthening of our balance sheet. In fact, in the first quarter of 2003 EBITDA interest coverage was further improved, reaching almost 11.7x compared to 11.5x that was reported by the end of 2002. And the total debt enterprise value showed a small increase in leverage from almost 16 to 18.09 but this was mostly due to the reduction, the market gap of the company in the last few weeks of the quarter.

In terms of our total debt EBITDA ratio, again another reduction from 1.89 to 1.79, a further strengthening of our balance sheet that is coupled with the improved profile of our debt. In fact our average life, the average life of our debt was less than 3 years by the end of 2002 and now it reached 6.3 years. So it's a major improvement, a major increase in average life and ratio of our debt, reducing refinancing risk, market risk of our debt and at the same time, we took very good wind of opportunity, we enjoyed it and we managed to increase our average debt life without increasing the cost, overall cost of our debt. So it's a very important measure.

Finally we also managed to sign contracts with major institutions, international institutions, first the institutions that made available to CVRD, US\$ 500 million in committed credit lines facilities. This is a very important step now, target of becoming an investment grade company. We are only two notches away from this level, we are rated currently BA-II and we have been implementing several important measures, consistent with this objective. I would mention the reduced leverage of the company; we are operating below 2.0x EBITDA, total debt EBITDA in a ratio below 2.0. We also, as I commented before, improved sharply profile of all debt in terms of duration and average life; we are discussing with Central Bank, the change, the regulatory frame of that would allow net exporters like CVRD to keep high currencies offshore without the obligation of repatriating all the hard currency it generates and finally, we further mitigated the proceeds transfer risks through the contracts with those banks I just mentioned of the signing of the contracts of our committed credit line facilities.

This was a very important step, US\$ 500 million at a very low cost. It's a commitment fee of 50 basis points for US\$ 400 million and 100 wages points for US\$ 100 million that is made available for almost three years. Again, this is the only Brazilian company we know that has this sort of credit available and it will certainly enhance, improve risk perception about our company.

Turning to the next section, we'll comment a little bit on China and our exposure to China and its growth potential.

I would like to start by putting the recent Chinese growth in perspective; if you turn to the next page, page 18 in this presentation, you see that Chinese growth history is not a new phenomenon in terms of the other Asian countries. It's very similar in its duration and its strength. So if you take, according to IMF data, the Chinese growth and compare it with Taiwan, Singapore, Korea for the last 30 - 25 years, you see that what is happening to China is very similar to those other countries, meaning that they will continue... our expectation of continuous growth in China is based on the actual experience faced by other countries in the same region, the same pattern of growth.

China has also a metals showing similar to Japan, a metals intensive economic growth but in a much, on a much larger scale, with a population in China of 1.4 billion people and they much grow and with that and with this lower stay, not lower but as a less developed country, it must grow with a certain bias towards this metal materials in general, produced by companies like CVRD. So they are demanding, they are important player in the global consumption of all important raw materials: iron ore 28%; aluminum 19%; copper at 19%; zinc 22% and nickel yet 9%, but could grow in the future; and steel, we are responsible for 29% of the total imports of steel in the world. It's a very important player, should not be ignored and there we see no sign of major change in the performance in the near future.

As you see in the next page, showing the consumption of steel per capita in China, it's far behind major players in Asia, Korea, Taiwan, Singapore and Japan, showing that there is a lot more to come in terms of growth and we have no doubt that this will be the best, although it could be moderate, more moderate than the previous decade but it will continues to be a very strong growth rate.

In our case, as for CVRD including all the companies we have and we have a share on that, including Samaco, for instance; we have been growing faster, our sales to China are growing faster than the Chinese imports that are growing very fast themselves at 34% and our sales are growing by 34%, annual rate, average annual rate, while the Chinese imports is between 99 and 2003, grew by 28%. So we managed to increase our market share in this very important market through the several components of our group.

We are also exploring new opportunities to increase sales to China, particularly in terms of manganese and alumina. We still have a much lower share in those markets than the share we have in the iron ore market, for instance. So we believe there's more room to grow in these specific products as if we are able to produce more.

Also to put in perspective the relative importance of China in our revenues, of course China is important as a country, is the largest client we do have, but it represents 10% of our gross revenues, so we believe that the geographical distribution of our gross revenues is very good. So we have Europe, several countries in Europe, 31%; China 10%; Japan 5.6% and domestic market 30.8%.

In terms of iron ore and pellets, China demand represents 16.3% and if you take out the domestic market, you see that it's very similar to the sea born trade if you adjust for the totals –the share of total exports in sea born trades share of China, in total. So it's an exposure consistent with the trend, the demand of Chinese showing in this specific market.

We have a long tradition of strongly links with leading agents to make as we put there, not only through long-term contracts, but also with joint ventures with several of our clients. This was the case with Japan we did have a pelletizing plant in Cobrasco; we are also in Usiminas with Nippon Steel; in the case of Korea, Korea we have another pelletizing plant, Cobrasco; and now in China, where we are developing a very strong relationship, first with a long-term contract, but also with joint ventures, as an example, our relationship with Bow Steel. In fact we have a long-term contract to sell to over 220 million tons of iron ore until 2016 and we are developing an export oriented steel slab plant in Sao Luiz and we'll be partners of Bow Steel in this investment that is the largest investment of a Chinese company overseas. It's a very important demonstration of confidence in CVRD by their part and also in our country, and our role in this joint venture will be as a minority shareholder and exclusive provider of iron ore and pellets, representing about 6 million tons per year in the first stage of the project. It's a very important growth drive this joint project with CVRD and Bow Steel.

In terms of the future of Chinese iron ore imports, we are working with a more moderate growth rate for the imports until 2007 – around 12% per year – much lower than they once showed in the period 99-03, of 28.1%. And as for the sea born trade we are also working with a figure that is 4.7%, much lower than 6.9% observed in the same period 1999-2003. This could prove to be conservative as if first quarter figures of the Chinese imports prevail for the rest of the year. And, by the way, in conversation with our office in Shanghai, they see no sign of deceleration at all in their demand for our iron ore and iron ore in general. So demand continues to be extremely strong and they are looking for more and asking if we don't have more ore to sell available.

Well, our sales to China are supported by long-term contracts and if you should turn to page 27 you see what will be our shipments under the current long-term contracts we have signed with them, jumping from, let's say, 32/33 million tons this year to about 55 million tons by the end of 2010, not considering CAEME and Samarco that have a very, they both have a very strong presence in the Chinese market.

Still in China we believe that the measures adopted by the Chinese Government were appropriate, they were in the right direction, it was a prudent approach. We believe that the measures adopted by the Chinese Government were appropriate; they were in the right direction, was a prudent approach. We believe that was happening there was a speculative process, filled by cheap credit and disregard they are addressing the issues correctly and this should prevent the implementation of low return projects and to preserve growth prospects of China as we are foreseeing. But again, we do not think that the Chinese demand for iron ore will diminish and we believe that the market as a whole will be very tight until the end of 2006.

Finally, just a brief overview in our growth portfolio. We have announced and we are implementing projects that will increase our total capacity by 73 million tons per year by the end of 2007, seven greenfields and brownfields projects. Carajás is now trading 70 million tons per year trend and we are already investing in the second expansion to 85 million tons that should be fully operational in 2006. Itapira we are investing to increase its capacity by 3 million tons per year and we have three new projects: Fábrica Nova, Brucutu and Fazendão. Fábrica Nova with two stages; in the second stage Fábrica Nova could reach 50 million tons by 2007. Brucutu, in the first stage, 12 million tons and it could reach also 24 million tons, could be expanded up to 24 million tons, if necessary. Carajás could also be expanded further to 100 million tons, if the required investments are approved. So what we are showing here is that we have the flexibility to increase our production; we are implementing all those projects and if necessary and if demand is there, of course, we will review upwards those projections then we can invest more to insure the adequate supply of iron ore, in the market.

In terms of bauxite and alumina we just received the authorization of the Government of Pará to implement the pipeline that is part of the Paraguaminas project and this is a very important green light. As for the alumina, Alunorte Stage 4 and 5 we are already investing in its implementation but I would like to highlight here is the very effective Capex per ton. We are talking about, in case of Paraguaminas with its pipeline improve, we are able to deliver a project with about US\$ 60 per ton – it's 20% lower than other projects, other greenfield projects in bauxite, it's a very efficient project. And in the case of Alunorte, stage 4 and 5, we hope to deliver them very much in line with the stage 3 expansion at even a lower cost of 324, that, anyway, will be much lower than the average of our competitors brownfield expansion of US\$ 450 per ton.

And finally we have the Sossego project, in a very good timing, we are very happy with this project; the plant is running very well. It's the only greenfield copper project in the world to come on stream in 2004, we'd like to stress that, few years ago there was a lot of skepticism about; first our capacity to be in this copper segment and second, about our capacity to implement this project. So we are very happy to announce that the project is ready and that will be fully operational, maximum July 04, and as you may know we are scheduling a investor tour that do have the Sossego project as its main event, coupled with a visit to our Sao Luiz port facilities that were just expanded.

And with that, I close this presentation, I thank you for your patience and I'll be here to try to answer to your questions. Thank you very much.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question, please press the "star" key, followed by the "one" key on your touchtone phone. To remove yourself from the questioning queue, press the "pound" key.

Due to the number of participants on the call, and in order to allow for all questions to be posed, we kindly ask you to limit your questions to two at a time. Should you have a follow-up question, you may prompt the operator to return to the questioning queue.

Operator: Our first question comes from Mr. Alberto Arias, with Goldman Sachs.

Mr. Alberto Arias: Yes, good morning gentlemen. I was wondering if you have done any kind of sensitivity with regards to Chinese growth rate in order to see how far would Chinese growth would have to be planned before you have an impact in some of your projects for iron ore, alumina and copper, if that's the case.

Mr. Barbosa: Ok, thank you Alberto. I understand that you are in China, right?

Mr. Arias: That's right. Yes, it's very late here.

Mr. Barbosa: Well, good night! Good evening! Thank you for your question, Alberto. We are working with a more moderate growth rate for the Chinese growth – 7.8% this year, 7.7% less next year, and a gradual conversion towards more regular growth rates like 4.5 to 5%. And as you saw in our presentation, even with this more moderate growth, the contracts we have signed with our clients are insuring us demand that will reach, only for CVRD, 55 million tons per year starting, I believe, in 2008. So these contracts combined with the bias towards the metals intensive growth, given the stage of development of China, should insure a very steady demand for raw materials in general and particularly iron ore.

So I believe that the risk we are running is to be again short of what to provide all the demand that could be there. We are working with this scenario and even with this scenario we already have overbooking. We have clients demanding well above their regular contracts, given the very strong demand that we are seeing right there in China, as you can see in person.

Mr. Castelo Branco: Alberto, good night. The Chinese authorities have a good track record in dealing with situations of excess demand. In 1993 there was an investment, a boom led only by the State and the GDP growth rate reached 13%. In October 1994, inflation rate sky erupted to 28% and then a stabilization program was put in place, so they reached more normal growth rate by 1995, of 9% per year.

They managed well the Asian financial crisis, in 1997/1998 and the growth of recession in 2001. We believe that the restriction put in place by the PBOC, the State Council, the State environmental protection agency, is focused much more on marginal players that contribute to heavy pollution that are buying at very high prices in the spot markets and have low financial capacity that represents risks of default for the major commercial banks – they don't want to accumulate non performing loans. So as Fábio highlighted, our relationship is with the strongest steel makers in the country that are modern, that have good financial capacity; low financial risks for the banks and our sales are supported by long-term contracts. So we believe that there are risks, of course, but risks are minimized by all these factors.

Mr. Barbosa: Alberto, just to conclude, we have about 20 clients in China. There are over 450 steel makers there, as you know. So we are, let's say, in a way just beginning and I believe there will be some consolidation in this segment there, but we are operating with what we believe could be the winner of a consolidation process that will certainly take place in the future.

Operator: Our next question comes from Mr. Ivan Fadel, with CSFB

Mr. Ivan Fadel: Hi gentlemen. My first question regards to the price increase in iron ore: I just want to clarify if CVRD already granted the price increase for all of the non-Asian clients, I mean all the Brazilian and European clients. I know that Arcelor respect the Asian clients, but other than that I was just wondering if there could be an additional upside besides the Asian clients to additional price increases to either European or other countries clients. So this is my first question.

The second question regards the cost reduction: I just wanted to know the feeling from the management if there is more room for further cost reduction where that could be done, in which kind of segment or which kind of business? So those were my two questions. Thank you.

Mr. Barbosa: Thank for your questions, Ivan. Welcome! For the price increase, we have the bulk of our European clients, I'd say, they are fully accounted for already in our figures. I would say that 90% of the total effect was already included there. But the bulk of the price increase will come in the second quarter with the residual 10% of the first quarter plus our Asian clients and other clients that are chained in the second quarter of the calendar year. So I believe that the impact should be slightly stronger in the second quarter than in the first quarter.

The second question of cost reduction: well, there's always room for cost reduction. We are working very hard on that, as you know last year we made a major effort in terms of maintenance and removing backlog that should imply in more efficient equipments, more scale of operation, and also some cost reduction associated with that. We also did some one-time adjustments in the fourth quarter that we are trying to smooth this year and we believe that they should not be fully refuted in 2004. We commented on the measures adopted by FCA that should imply in a better operational performance, basically through cost reduction and, finally, we are seeing a trend to devalue the exchange rate compared to what the level prevailed in the first quarter and that should represent in Dollar terms an additional cost reduction, if things remain as they are.

Mr. Fadel: Ok. It was very helpful. Thank you very much.

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

Mr. Daniel Altman: Hi, good morning. Few questions: first of all if you can comment on the Alunorte business, the spot prices for alumina obviously shot up in the first quarter; we really didn't see that in your numbers. What percentage of your sales from Alunorte is to the spot market? Second question is...

Mr. Barbosa: Could you repeat please, sorry, the last part of your question? Please.

Mr. Altman: I'm just wondering, given that you've been running Alunorte above its nominal capacity, I would have thought that you would have more volumes to sell on the spot market for alumina. Just wonder if you could tell us, in the first quarter, how much of your volumes were contract to shareholders versus the spot market.

Second question is regarding FCA. In the fourth quarter you showed, obviously a very large loss, very large EBITDA loss at FCA, and it seems like the first quarter it had only a minor impact on the logistics business: was there any structural changes? You mentioned lower labor cost, but were there any structural changes in the way you report FCA that would account for such a dramatic turn around just from one quarter to the next? Thank you.

Mr. Barbosa: Ok. Daniel, thank you for your questions. In the case of Alunorte we have very small volume in the spot market so we are trying to understand your question about the higher volume but we are dedicating the most we can to the long-term contract we signed with our clients. It was, it may be over our nominal capacity, but since last year if you noticed, particularly the third and fourth quarters we were already operating in higher than the nominal capacity we had for Alunorte. So, there's no net increase in the spot market operations there.

And for FCA, your second question, we had all the structural measures, we mentioned that should have a more long-term effect, we reduced our pay roll there and also we promoted a price increase in the tariffs of our services of general cargo. So this, in Reais combined with the stability of the exchange rate helped also the revenues side to improve the performance of our railroad.

Mr. Altman: Ok, thanks very much.

Mr. Barbosa: Thank you.

Operator: Ladies and gentlemen, we kindly ask you to limit your questions to two at a time. Thank you.

Operator: Our next question comes from Mr. Andres Peres, with Morgan Stanley.

Mr. Andres Peres: Hi, good morning. Two questions: the first is on the decline we saw on outsource services; one of the items mentioned was discounts given to CAEME related to Real Services at MRS. If you could just expand upon it a little bit, you know, how sustainable are these lower charges from MRS? It was my understanding that Real costs are actually going up a bit in Brazil.

And my second question was: we've been hearing that there has been a bit of an inventory bill in China, both in iron ore and steel, plus it seems that freight rates are, you know, coming down a bit. What do you think this indicates in terms of overall demand?

Mr. Barbosa: Ok, Andres, thank you for your questions. The case of MIS is the contrary of what happened in FCA. We had a price reduction through a bonus that is granted to the clients, particularly the shareholders there, that is associated with the performance of the companies. So we had a very good performance of MRS in 2003 and so the company was able to reduce the cost it charged to its clients, particularly the captive clients like MBR and other companies that use that railroad. So this was an across the border price reduction promoted by MRS, OK? And also as we mentioned in our report, we also had the interruption of the railroad for two or three days due to accidents, so we paid, MBR paid less for the services also due to this reduction in volumes.

On the second question, an inventory building, we have not seen any sign of that in terms of iron ore and again, you are right, the freight rates are coming down a little bit. But this, I believe, does not mean that the freight rates reduction imply that what was happening with the speculative demand I mentioned before, I mean, that clients that do not have long-term contracts of freight and the trader that are trying to get the ore to China at any cost, buying from anywhere and delivering or transporting in any ships available that were inflating the freight cost artificially or in line with the availability of credit they had to speculate with this raw material. With the measures taken by the Chinese authorities, there should be a natural reduction in all this sort of movement there. So the freight rates could reduce a little bit but the fundamentals of its level would remain, so they could comedown from a very speculative level they could have been in the recent past, but they should continue to reflect yet the tightness of the iron ore market. And specifically, again, in terms of inventory building of iron ore, we have no information or indication whatsoever that this is happening in China, to the very contrary, our clients are demanding more and more iron ore that we are not able to deliver due to capacity constraints.

Mr. Castelo Branco: Andres, the freight rate decline was a supply agreement. As we have said several times last year, it was predicted that a cape size fleet increase this year will put some pressure on freight rates and as a matter of fact cape size versus fleet is increasing by more than 3% and this has an effect on the supply of freight, causing a price decline. Additionally, as we have said, investments in ports in Brazil and Australia and even in China are making the effective supply of maritime transportation to increase and, of course, it has an additional impact on freight rates. We had also a temporary effect on the demand for freight caused by the Australian cyclone that forced the iron ore players in Australia to declare force majeure and to postpone shipments; this also caused a temporary situation of excess supply in the market of maritime freight.

Mr. Peres: Ok, thank you.

Operator: Our next question comes from Mr. Fritz Von Carp with Sage Asset Management.

Mr. Fritz Von Carp: Hello gentlemen. If you'll allow me to ask a question about your view of the steel market: it just seems to me that there are some questions about steel capacity growing in China, you know, what rate and what quality; I suppose if anybody wanted to make steel in China, they would have to come to you first for the ore or maybe one of your competitors and I was just wondering if, you know, if your figures for iron ore growth represent a maximum on the rate at which Chinese steel production can grow and whether you see – and kind of related to that -- do you see them becoming, China becoming an important steel exporter net in the next, you know, five or ten years.

Mr. Barbosa: Thank you, Fritz for your question. We... what we have been observing is that growth in the Chinese steel production continues to be very, very strong. I believe that the first quarter showed an increase of 26% compared to the same period last year; the world production was, of course, affected by it and as we put in our report, it was over 8.7% increase compared to the same period last year, but even without China it grew almost 4%. So it's a very favorable environment for steel producers everywhere, but China is a peculiar, particular case, given its very high apparent consumption associated with the level of development it has shown. You saw in our presentation that China is in a state of development well behind the top Asian players in terms of economic and social development, so a steel consumption of 150 kg per capita is very low compared to almost 600 that other Asian countries are demanding and there is no reason why China should not show the same level over the next few decades, let's say. So our perspective is a very strong road in a long-term, although it could be at a lower pace, rate, it could be more moderate growth; instead of double digits growth rate we could see a steady and sustainable growth rate of around 5% and the steel industry should, in the average GDP, grow...

Mr. Barbosa: Yes, so Fritz I don't know... well, we were commenting on the growth rate of China that even in a more moderate fashion it should continue to show very impressive performance around 5% per year or so; the Chinese economy already is US\$ 1.6 trillion – it's a huge economy already and has a very good balance of payment position, it's extremely competitive and it should continue to grow in the same level, similar to this as I commented before. And the steel industry, in particular, would be associated with this growth, showing elasticity as demand higher than one compared to the GDP growth rate, in our view and then we....

We believe that we'll have a lot of room to grow further in that market and that we'll be able to deliver and to provide our Chinese clients with the necessary ore to support this growth. You saw also our pipeline of investments and my comments on the potential increase in production, even compared with the very aggressive figures we showed there: we are increasing our production by 73 million tons, but this figure could easily 100 if you double the Brucutú capacity and then if you increase Carajás capacity to 100 million tons per year from the 85 that would be operating from 2006 onwards. So, in sum of course we, as the leader, global leaders in the iron ore market, will be consulted by the Chinese players in that market, in the steel industry in China; we'll be their partners as we have been with several of them with a.... we have some 20 clients right now. We believe that the sector will pass through very important transformation in the next few years, with some consolidation being very likely and we'll be happy to provide them with all our support, according to the limitations we have in terms of our production, avoiding of course, an excessive concentration in a single market.

Mr. Von Carp: Thank you.

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

Mr. Paolo Di Sora: Hi gentlemen. Congratulations for the strong results in the first quarter. My question is first regarding Capex for the year; I know that you have been having problems on environmental license in a few of your projects and I would like to see if you are revising downwards your Capex for the year, considering that the first quarter Capex was way below the average expected for the year.

Mr. Barbosa: Well, thank you for your compliments, Paulo, and thank you for your question. Well, on the Capex we are forecasting for the whole group US\$ 1.8 billion – one billion, eight hundred and fifty million dollars – this is our forecast, and you are right: we face some problems related to our investment in terms of the regulatory framework. The license for Paragominas, for instance, was just recently achieved, it was granted; to give an idea, Candonga, the power plant that is ready for almost five months, is not operating yet because we have to... we had a license and then the – I don't know how to translate that – the Ministério Público – it's an arm of Justice, they simply got a provisional measure to avoid the fulfilling of the war, so it was not completed. The license for the pipeline, also delayed a little bit. But I would say that the 350 million or so that we spent in the first quarter, it's about 20% of the overall expected year figure of US\$ 1.8 billion and this small delay could be recovered as the year goes by. I don't... we just recently ran the figures, a new estimate for the figures for investment Capex program for the purpose of adjusting eventually our program and they are very much in line with our projections in the beginning of the year, so we believe that we'll spend US\$ 1.8 billion.

Mr. Di Sora: And my second question is regarding your primary aluminum production in Albras; there was a reduction on volume this quarter and I know you completed the negotiation of energy prices recently. So I would like to have a sense of which kind of volume should we expect for Albras going forward and if you are studying any increase on production at Albras, considering this attractive energy price you could get.

Mr. Barbosa: Ok, Paulo. The reduction in production in the first quarter was due to adjustments in Albras plant – operational adjustments – because when we had this shortage of energy in 2001 and so, the equipment turned off the unit and then you turned it on and then the life of the cells was shortened and then we had to stop a little bit this first quarter in order to repair them and to replace them. So that caused some reduction in production that should be resumed in normal levels in the second quarter onwards – it's already recovering – so we believe that we may reach by the year-end total production of 450 thousand tons.

Mr. Di Sora: And regarding any studies on expansion on...

Mr. Barbosa: No study on expansion, the contract with Eletronorte covers only our current needs and in order to think about an expansion, we should be attracted to a much more competitive energy cost than the one we have, of course, Albras contract, given the circumstances was a very efficient one, very, very good deal, very good agreement for both sides. But thinking of a new plant you would have to consider the alternatives worldwide and we have been contacted by several different countries offering very special conditions to invest in those sorts of electric-intensive materials, so we have to consider a much broader picture.

Mr. Di Sora: Ok, thanks.

Mr. Barbosa: Thank you.

Operator: Our last question comes from Mr. Raphael Biderman, with Banco BBVA.

Mr. Raphael Biderman: Good afternoon gentlemen. My question, I don't know if you already mentioned this, but my question regards on the problems you had in the Carajás railway on the MRS; I'd like to know how much of the reduction on iron ore volumes – you mentioned it was 2.6 million the reduction, but how much of that was because of the accidents and how much was because of seasonal effects. And also if you could give some indications in terms of the Cofins tax, the sales tax bracket increased from the fourth quarter to the first quarter; I would like to know if this is the Cofins tax or if the increase of the Cofins tax impacts exporters, like you do – that's basically it.

Mr. Barbosa: Thank you, Raphael, for your question. The first case, the accident in Carajás was more important to explain. I believe that the final figure was about one million tons – 1.2 million tons of iron ore that we lost in terms of production and the other part it was seasonality of the rainy season that affects our production, as you know, so this is the... as I was saying the other day, was the weakest quarter of the year in terms of production, in terms of the company performance as a whole. So I would say that half and half distribution would be a fair estimate for that. As for the taxes as you may notice we made an observation that we paid retroactive IPTU – it's a tax on property that was due to the local government of Itabira – and if I'm not mistaken the total amount paid was US\$ 6 million – R\$ 18 million – R\$ 18 million. So this could explain this change in impact that you observed.

Mr. Biderman: But the accident at the Carajás plant, I suppose – it's been awhile since I don't look at CVRD but when I used to look at it, I've never seen it happening: is this a reason because demand is too high and you are working at your top capacity and anything could cause a problem? My question is in the sense: is there increasing risks of having production problems or this was a one-off, very extraordinary event?

Mr. Barbosa: No, it's a... It was an extraordinary event and Carajás had a record in terms of performance, operational performance and that was unfortunate because it happened in conjunction with the rainy season but there is no indication that we are running much higher risks of accidents than in the past; to the very contrary, we are enhancing our operational procedures as in safety procedures, in order to avoid that.

Mr. Castelo Branco: And the Carajás railroad registered last year a decrease in 50% in terms of incidents, railroad incidents last year and it's considered one of the safest railroads in the world.

Mr. Biderman: Ok, thank you gentlemen.

Mr. Barbosa: Thank you.

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

Mr. Barbosa: I would like to thank you all for attending this conference and myself and our team here, CVRD, will be available to clarify any further questions you may have. Thank you very much and until next time.

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