



LOCAL CONFERENCE CALL
CVRD International 1Q05 Results
May 13th 2005

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. As a reminder, this conference is being recorded.

At this time I'd like to turn the conference over to Ms. Lídia Borus, from Financial Investor Relations Brasil. Please go ahead.

Ms. Lídia Borus: Good morning ladies and gentlemen and welcome to CVRD's conference call to discuss first quarter 2005 results. I would like to mention that a slide presentation has also been made available on the company's website at www.cvr.com.br during this call.

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 those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

With us today is Mr. Fabio Barbosa, CVRD's Chief Financial Officer and Mr. Roberto Castello Branco, Investor Relations Director. First Mr. Barbosa will comment on the First Quarter 2005 Results. 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. Fábio Barbosa: Thank you very much. I would like to welcome you all to this conference call for the first quarter results of CVRD in 2005. Our agenda today, in our agenda today we will discuss our performance in the first quarter, of course, and then we will have some comments on the market fundamentals that we consider to deliver, that they are very strong.

On the first quarter of 2005 we believe that we delivered it a very good result. Despite several factors that affected our performance in this period – I would mention the appreciation of the Real, on a year over year basis of 7.8%, a sharp appreciation that still continues, actually, and a 4.1% appreciation against the last quarter of 04; some cyclical cost pressures derived from the very tight market in every industry that is related to us, in a way; the seasonality that, through the very heavy rainy season that we faced in the first quarter, particularly heavy season, affected some lines of businesses of ours



and not only that, but also it resulted in less revenues in our logistic business due to the harvest in Brazil starts by April and May, so there was a seasonal adjustment in our revenues in logistics as well, and some operational challenges, particularly in the copper area that I will comment a little bit further.

In terms of costs, our costs, compared to the first quarter of 04 reflected not only production growth, but also the currency appreciation that we just mentioned. I would like to highlight the increase in cost in materials, a particularly parts and components, outsourced services, due to the annual adjustments of contracts we had with several suppliers, but also due to the increased transportation of ore by MIS to our affiliated MBR and Caemi.

Energy costs they were affected by few price increases in Brazil, by 31% and also to the high-energy costs in Albras, an affiliated that we consolidated since the first quarter of 04. Of course, the appreciation of the Real was an important factor and again demurrage was at a high level, reaching US\$ 21 million in the first quarter of 05; US\$ 9 million above the same period last year. Meaning that our ports continue to be fully loaded with ships in line and we are working hard to optimize the loading capacity in our facilities.

Despite all that, our top line growth reached 34.5%, but here I would like to stress again that we did not consider any effect of the iron ore price increase and pellet price increase achieved in 2005; this should be reflected from the second quarter onwards. Despite that, the price contribution to the first quarter revenue was very strong and, again, iron ore ferro-alloys and pellets were the main contributors to this very strong result we are showing.

In terms of shipments we reached a level of almost 50 million tons in the first quarter of 05, slightly below our own expectations, due to the heavier than anticipated rainy season, particularly in the Northern System that affected not only our iron ore production, but also manganese. Even with all these difficulties, our operational performance was good and our EBIT margin reached 35.9% in the first quarter of 05, above first quarter of 04, with 35.2 and above the fourth quarter of 04.

Our perception about the good performance, operational performance, is confirmed when we see the performance of the several divisions of CVRD. Ferrous minerals showed a very strong margin of 38.9%; aluminum, 38.6%, reflecting the additional cost of energy that I just mentioned; logistics 22.2%, a little bit below, reflecting the increased cost of parts and components and also the fuel price increase that was observed in this period. In the non-ferrous area we have some operational challenges in our Sossego copper mine; actually, we underestimated the hardness of the rocks there, so we, in consequence, we had fewer than required, drilling equipment available. This is being corrected and we hope to catch up along the year.

It was unfortunate, because this lower production level coincided with very high prices prevailing in the market, but we also think that those prices should be supported by the very low level of inventories that we are observing right now. Nevertheless, it was not the best performance we could achieve and we



are correcting our operational equipment there in order to reach what we expect for the year.

When we turn to the Ebitda figures, again, for the twelfth consecutive quarter we are showing a new record. Ebitda was posted on an annual basis, US\$ 3,972 billion, and a very strong growth performance. Again, without any impact on the price increase achieved in 2005, just considering the negotiations that took place in 2004; ferrous minerals 68% of Ebitda; aluminum growing share, 17% of our total Ebitda in the first quarter of 05. Of course, with the price increase in iron ore and pellets and given the level of prices achieved by the aluminum and the aluminum chain products, we should expect, in the next following quarters, a recovery of the share of ferrous minerals in the total Ebitda generation.

Another important figure has to do with the earnings performance in the first quarter of 05. If we take out the run off effects of gains with asset sales in the third quarter and the fourth quarter, we see there is a continuous growth. Not only the strong operational performance held, but also some stability in the monetary variation, or the exchange rate helped in this direction, so we achieved almost US\$ 700 million in net earnings in the first quarter of 05, that compares very well with the previous quarters, when we adjust for those one-of effects.

Another point I would like to mention is that, as scheduled, we started up our third iron ore project in the last twelve months. Fábrica Nova is ramping up right now and we expect the production to achieve about 10 million tons this year and 50 million tons in 2006. And our Capex program, as usual in the first quarter of the year, was dragging a little bit behind the annual amount projected of US\$ 3.3 billion, but again, as happened particularly last year, we expect this figure to grow faster the next three quarters of 2005. And an additional point we would like to make regarding our Capex program is that in a comparison with the metals and mining industry average ratio between growth Capex and total Capex, CVRD is by far the more growth focused company of the industry, showing our commitment to expand our production and growth over time. In fact we are, as you know, developing six other iron ore projects beyond Fábrica Nova, that is ramping up right now: Itabira with 3 million tons, that should be ready in 2006; Fazendão, 14 million tons by the end of 2006; Carajás, 85 million tons, that should also be operating fully in 2006, but with the arrival of the shiploader by July this year we should be producing in Carajás around 78 million tons, 77.5 million tons in 2005 yet and then the 100 million tons Carajás project, the expansion to 100, that is a very important project not only due to the expansion of the mine itself, but because it brings along an investment in our railroad that would give far more flexibility to our Carajás railroad, increasing cargo capacity by almost 50%, so it is a very important investment there. Brucutu, as you know, is being implemented, as expected, to produce 24 million tons by 2007 and Fábrica, our mine, our former FATECO mine that is currently producing 11 million tons should be producing about 50 million tons by 2007, as well.



Together with this major investment effort, we are allocating US\$ 275 million this year to our R&D investment that is being accelerated. The 37% of this amount is invested, is being spent in South America, except Brazil, Africa and Asia and they come together with the new project in our pipeline; the coal project in Mozambique, our stakes in China for inter cycle coke and coal marking our entrance in this very important market for CVRD; the new, the potash deposit in Argentina and the phosphates in Peru that we just won the billing process that took place there, enhancing our perspective of sustainable growth with some diversification and also globalization.

With all that and the strong performance we just showed, we managed to enhance further our cash flow and, as you see in this chart, our Ebitda interest coverage reached 13x, more than 13x, 13.24, a very strong indicator and a further decline in our total debt/Ebitda ratio to 105, making our figures much nearer to the top players in this industry.

An important event that took place the last few weeks was the signing of the contract with several first-year banks to increase our committed bank facilities. The stand-by credit that is made available to CVRD now amounts to US\$ 750 million and this will certainly help us in our search for the investment grade that is so important for a company like us. I would like to highlight the terms and conditions of these new lines that we managed to get. We have US\$ 650 million that were contracted, were signed this year - because we already had US\$ 100 million from the previous year - we now have conditions far superior of those that prevailed in the first arrangement; now we have 2 years for withdrawal plus 2 years for repayment, if we disburse those lines, what we did not do with the previous US\$ 500 million line that was available. Commitment fee also declined to 30 basis points and interest rate was even lower; if we disburse, we will pay on this facility Libor + 75 basis points and, it is a very important remark, there are no restrictions to disburse those lines attached to the country risk. So it is a very important step forward in our view, as you know, we are, according to Moody's, we are rated BA1 with a positive outlook and this certainly could help rating agencies in general to assess our actual risk.

Turning now to the market fundamentals, you see in the cover that we actually see that they continue to be very strong. The last few weeks we saw what is being called the growth care that reduced sharply the value, the market cap of several mining companies, including ours. In total we indicate there about US\$ 63 billion of mining value, was gone; but in our view this is most likely to be an overshooting if we look at the fundamentals of the global macroeconomic framework. In fact, GDP, global GDP growth is expected to continue slightly above the long-term trend observed during since 1970, around 3.5% a year.

Also in the next chart you see the US economy still growing above trend; this is a very interesting indicator, it is a normalized average of 85 indicators. When it is positive, it shows that most indicators are performing above its long-



term trend. So there are, in our view, several reasons to believe that the US economy will continue to show robust growth, although not in the same levels that were observed in 2004, that was actually a very good year.

As for China, well, you know the figures for the first quarter of 05 that show a GDP growth of 9.5%. Our current estimate for this year is 8.5%. I remember that last year our estimate for 2005 was 7.5% or something and 2006 around 6%. Now we revised upwards, given the very strong performance in the first quarter and, more than that, if you look at the next slide, you see that the fixed assets investment continues to be growing at a very strong step. So this allows us to believe that China, again this year, will provide for stronger demand in the world market, particularly in the metals and minerals industries. The fixed assets investment has a very, very strong correlation with the steel consumption; this is very important for our business, of course, so showing that the perspective for further growth in the iron ore market, particularly in that region of the world, continues to be very strong in our view.

And in the next page our already traditional chart on the cost of freight differential again, it increased in the last few months again, after an important decline until the end of 2004. So it is in our view - of course this is an econometric model - there are uncertainties regarding it, but it is another indicator that shows the strength of the market out there, in particular.

And if you see the spot market prices that we put together you see that the perspectives for iron ore selling in that market continue to be very strong. By definition, there is only a spot market when the so called regular market is in imbalance; so if there is a spot market showing these very high price levels, it means that we are imbalanced, there is a desequilibrium between supply and demand; this demand has been not met by the regular market and even with the price increase we achieved when we concluded the negotiations on March 31st the price of CVRD ton of iron ore will reach about US\$ 41, well below the Indian FOB spot price and even the Chinese domestic ore spot price that was around US\$ 110 per ton.

In fact, the Chinese iron ore imports continue to grow very strongly and very much in line with our original expectations. The China's iron ore imports grew by 23.5% in the first quarter of 05 compared with the same period last year and they are very much in line with the estimate of 256 million tons to be imported by China this year. And another important point; we have been hearing some comments about inventories in ports; as usual, this seems to be the season of the inventories in ports, because last year it was the same. According to our office there in Shanghai, the estimate for the inventories is around 30 million tons. You know that China is growing it is industrial steel production by roughly 24% this first quarter; it grew actually 24% in the first quarter. If it continues to grow at this trend it will reach about 330 million tons by the end of the year. Considering this amount of production and using simple math, they would require, this production would require about 500 million tons of very good quality iron ore as ours, that is not available there, as



you know, and then their stock for a month should be around 40 or 42 million ton roughly, so they have inventories for just about three weeks. That is a very fragile situation and only indicates that the fear about iron ore stock piling there is no reason; there is no fact to support it. And another point that I would like to make is that although we expect more moderate growth in the steel output for the world and for China in particular, there will still be a very strong growth yet, compared to the previous years before the China appearance, let us say. If between 2001 and 2004 world steel output grew by roughly 7.5%, our estimate now between 2005 and 07 would be around 4% per year and this would make the steel production reach, by 2007, around 1.2, 1,190 billion tons of production and China should be producing 380 million tons, growing about 12% per year from 2005 to 2007. So, even working with a much more moderate growth expectation, we see that there is a very strong case for additional sales of iron ore in the world and particularly in China, of course.

For the seaborne trade we are expecting it to reach, this year, 655 million tons and by 2007, 720 million tons. As for China imports, our idea is that they will reach 256 million tons, as I commented before, and by 2007 they should be around 310 million tons and we are working hard to meet the requirements of our Chinese clients and other clients around the world.

Turning now very briefly on copper, I have commented already that the inventories are very low, what is unfortunate from the standpoint of our low production in the first quarter, but we are taking all the measures necessary to deal with the problem, the operational problem we had there; again, we are buying more equipment and trying to catch up with the budget for the year, but it is a very good and strong market for copper as well as for the aluminum chain. Aluminum stocks continue to fall and we believe that alumina availability that the shortage should prevail until 2007, the shortage of alumina is constraining, it is not a production in aluminum and making, sustaining very, very good prices for producers, now they are around US\$ 1,800 per ton, while the alumina spot prices, the percentage of the alumina price are in the level of 25%. Those were the comments I would like to make and myself and our team we will be available for any questions you may have on this presentation. 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 touch-tone phone. To remove yourself from the questioning queue, press the star followed by two.

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. Again, to ask a question press star followed by one.



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

Mr. Alberto Arias: Yes. Good morning Fábio and Roberto. A couple of questions; the first one is in terms of what you presented on the outlook for China steel production. I wonder if you have evaluated at which point is the expansion of the steel production capacity in China going to become a negative factor for the global steel industry and what would happen at the point in which it would lead to shutdowns of capacity outside of China? I just want to get a sense, because that is one of the key issues that the market is considering at this time.

Mr. Barbosa: Thank you, Alberto. In our view, the increase in capacity in China it is, has been driven and will continue to be driven by the very strong investments, aggregate investment rates that they are showing. We just commented on fixed assets investments and they, in our view, they should continue to post very strong growth rates based on a very strong level of investments they are presenting in the last few years. It is important to mention, I frequently get this sort of question; that China should slow down sharp in the near future, or after a few years. I can't see any objective reason to allow this conclusion, in the sense that they have a very strong macroeconomic framework, very strong balance of payments position, with over US\$ 600 billion of reserves, combined with Hong Kong; low inflation rate; very healthy domestic savings rate and a very high investment rate that is in line with the Asian experience and a few months ago, we commented that this pattern is similar to those presented by the several Asian economies that grew for 3,4,5 decades continuously with some hiccups here and there, but the trend is, undeniably, it is a growth trend, so I, answering your question, Alberto, I believe that the fundamentals of Chinese growth continue to be very strong and it is a growth that is biased towards metals and minerals in general and in order to grow, develop the Western region of the country, to complete the works for the Olympic games and others, they will need steel and in needing steel they will certainly buy our iron ore, because you know how poor the iron ore is to produce steel there, so we believe that we do not anticipate, in the next few years, this negative factor being derived from China, that is not our opinion.

Mr. Arias: So you don't see China becoming a major exporter of steel, because basically you are saying it is going to be consumed domestically?

Mr. Barbosa: Yes, I believe that domestic growth, domestic consumption, will continue, because they are still consuming, producing, about 200 kilos per capita, Alberto, so they still have a long way to go to reach at least Korean levels or, in the future, Japanese levels.

Mr. Arias: Yes and the second question is more specific, about the first quarter results. There were a number of operational disruptions. If you could



please elaborate a little bit more, because in the press release you discussed Carajás being affected on an operating level and that you had to implement an emergency plan. It seems, by the language that it was written, that it was more than rain. If you could elaborate exactly what happened there and also on the Sossego copper mine you had some reference to lower grades as well. Is there an issue in terms of the quality of the reserves that is not perhaps what you were expecting? If you could give us a kind of budget of for production of Sossego as well, how extended into the second quarter are these operational issues going to be?

Mr. Barbosa: OK. First on Carajás; Carajás we have an extremely heavy season that explains a major part of it, of the problems we faced there, we also had a problem with the conveyor that did not work properly, we had to make some repairs there and our pelletizing plant, for a few days, did not operate at full capacity. Because we are in a situation, Alberto, that we are operating at full capacity, a little bit, I would say, stretching our capacity to its maximum limit, so any problem, external problem, or even operational problem that we eventually make a mistake and something goes wrong, it will be reflected in the final production figures. I would say that it is very much correlated with the level of production we are implementing, but this problem is being corrected and we hope to catch up with the original plan to produce all the 77/78 million tons we are expecting for this year.

As for the copper, there is no issue of the quality of the reserve. The issue there, again, is that we underestimated the hardness of the rocks; we bought less drilling machines than we needed and when we saw that and given the tightness of the market, it takes a time to correct it and the machines are not available on the shelf, but we have one machine working, we brought two more already and there are two more to come in the next few weeks, so we hope that this problem will be corrected but, again, it is not a problem of the quality of the reserves that we continue to be very confident on the production there.

Mr. Arias: OK. And so the second quarter will have some lower copper production as well, because all of the equipment is not in place, is that right?

Mr. Barbosa: It is too early to say, Alberto, it is too early to say, we will have much more equipment working, if they arrive on time, than we anticipated originally, so let us wait for the final quarter numbers and comment on that, OK?

Mr. Arias: Thank you very much.

Mr. Barbosa: Thank you.

Operator: The next question comes from Andrea Weinberg, of Merrill Lynch.



Ms. Andrea Weinberg: Hi, Fábio, good morning; two quick questions. First, I wanted to know if you are facing any delays in some of your expansions, due to the lack of tires and the long wait for trucks in the industry. This has been a very common problem for a lot of the mining companies; I wanted to know from your point of view. And the second question would be on the costs in the quarter. I understand costs were higher, but as well have been higher for all the other mining companies, but I wanted to know if in this quarter specifically, because of your technical problems that you had, if the costs were higher also because of these problems and if in the second quarter they could normalize at slightly lower levels?

Mr. Barbosa: OK, thank you Andrea. On the expansion, the issue we are facing is that we are, as everybody else, we are investing heavily, and the timetable for equipment, is key. For instance, we bought 1,000 railcars in the first quarter, about this, and we have to buy this year 5,600; we expected some minor delays in locomotives as well, but as yet, as we can see, the major equipment, like the shiploader in Ponta da Madeira port is on schedule, it should be operating, start operations in July. So far we are not anticipating any change in production or expansion due to potential delays. We had an issue in Brucutu, but we are working also on that, we are implementing this operational excellence program and the issue was precisely, it had to do with the starting date of the expansion, the new Brucutu, because we have an old Brucutu that is already producing 6.5 million tons as you know, so as yet we don't have major delays in our expansion program.

As for the quarter, there are two aspects that I would like to mention and they have to do precisely with the previous question on copper and iron ore in Carajás. With the reduction, the relative reduction in production in iron ore, some costs per ton increased and the same applied to copper; we produced much less than we had to produce and we have regular costs running, so in a way, as we resume normal operations those costs should decrease in line with this increase in production.

Ms. Weinberg: Thank you.

Mr. Barbosa: Thank you.

Operator: The next question comes from Jorge Beristain, of Deutsche Ixe.

Mr. Beristain: Hi, good morning, Fábio, Jorge Beristain with Deutsche Ixe, just two questions; one is if you could quantify or project, with the expansion of the Ponta Madeira pier 3, if you expect the demurrage expenses should finally get under control for the company in the second half and secondly if you could just discuss the impact that we saw quarter over quarter, a very significant decline in interest expense recorded by CVRD to more normalized levels and what was behind that?



Mr. Barbosa: OK. Thank you Jorge. On the demurrage costs, the very fact is that we are not happy with this level of costs, although it represents another indicator of the tightness of the market. It is a complex operational programming issue, because you have to combine the ships that are coming, with the availability of the port and the variety of products that we offer to our clients. As you know, we offer over 100 different products to our clients and there are some times when you operate in a stretched system, as we are right now, there are some times that you don't have the specific product for the ship that is waiting to be loaded there, so this happens, and it has to do with the timing of the ships, the timing of production, and this is not an easy task, but anyway we are not happy with that, we want to reduce that, this is a direct guidance by our CEO in this direction, to try to reduce this cost and certainly the new shiploader in Porto da Madeira could help in this regard. However, I would mention that we are increasing our production capacity there, and next year we will increase further, and as we mentioned before there are no signs of deceleration of the demand. We will do our best, but this has been a tough task.

On the decline of the interest expenses, Jorge, we had a reduction in the derivatives costs there, in the first quarter of 05 compared to the fourth quarter of 04, and it was the reversal of about US\$ 65 million between what was shown in the fourth quarter and what was achieved in the first quarter and the derivatives costs they have to do with the reduction has to do particularly with the increase in the interest rates that were observed in the first quarter, because we have a protection against fluctuation of interest rates in the market and as they are increased in the last few months, this helped, because we have a ceiling for the interest rate, so this helped to reduce the negative position of our derivatives, so that is the explanation for that reversion.

Mr. Beristain: Thanks and sorry, on that interest rate, do you expect that that is going to be more indicative of your future quarterly interest rate payments?

Mr. Barbosa: Well, let's think; roughly we have a gross debt of around US\$ 4 billion and the gross interest rates are around 6% so and we have some liquid assets on the other side of the balance sheet, so let's roughly think of around US\$ 200 million or so, something around this figure, but those may be adjusted as well for the derivative position that I mentioned before.

Mr. Beristain: Thank you.

Mr. Barbosa: Thank you.

Operator: The next question comes from Karim Babay, of Lehman.



Mr. Karim Babay: Hi guys, thank you very much for the conference. I just have one question. Any shareholder friendly actions, beyond what the company has mentioned in terms of returning money to shareholders?

Mr. Barbosa: In short answer no, as yet.

Mr. Babay: And if, what is the reason behind that? You guys seem to kind of, you know, have a pretty sound Ebitda going forward, as a result of 71.5 increase in iron ore; unless you guys are seeing a decrease next year that can be understandable, but if the prices would at least stay stable I think it would be fair from the shareholders point of view to kind of return some of that, unless you guys are projecting to do something with regards to expanding beyond mining business or have in view several Capex programs, for the next five to ten years? Any comment on that?

Mr. Barbosa: Yes, well, I would say that; no, we do not expect a price decline next year, we are seeing a very strong market next year as well as in this year production growth and we see no reasons to work with a price decline; I have seen some reports, some analysis about this issue and the only explanation I got so far, given the strength of the fundamentals, is that people want to work with the concept of the reversal to the mean and I don't believe that this would capture the whole picture in the sense that what we are observing is a structural change in the market, because we have a big major player in the market and this market could be further enhanced in the future, by another big player if India decides to grow much faster than it is growing right now, as Mr. Goodyear mentioned the other day. So, I don't see any change in the fundamentals of the market that would allow us to think in a major reverse of the market or the change in conditions of our businesses. As for our investment plans it is public; we announced a Capex program for 2005 of US\$ 3.3 billion, it is a strong Capex program for the following years until 2010 we should spend only in growth Capex about US\$ 13 billion, so it is a very meaningful investment program, but as we showed before, we have the financial strength to support this strong Capex program, to keep a very strong balance sheet and to remunerate our shareholders, but on that last topic, this is a decision that has been made by our shareholders, it is to pay a minimum dividend of US\$ 1 billion; we are still releasing the first quarter results and no change in this picture has been considered by our shareholders. Thank you.

Mr. Babay: Thank you.

Operator: The next question comes from Daniel Altman, of Bear Stearns.

Mr. Daniel Altman: Hi, good morning. I am wondering, first of all, if you are considering, in the future, providing more guidance on potential production shortfalls or issues that you have to avoid the kind of surprises that we saw this quarter, I am wondering if you are considering implementing like a



earnings advance warning, or such as you know and other companies have done recently? Second question is on CADE, if you see possibility, not a probability, but a possibility of CADE may ask you to divest iron ore assets or lose the right of first refusal? I am also wondering if you foresee any more contracts from CSN that you are studying at the moment? Thanks very much.

Mr. Barbosa: Thank you, Daniel. I will start with your first question on guidance; In general, we have a view that guidance may bring some additional volatility to our share performance. That is our perception, we may be wrong, but that is the way we have been seeing this issue so far. I believe that, nevertheless, we still have some improvements to implement in this area and particularly addressing your concern, is the issue of the production report that we are trying to anticipate it a little bit, before the earnings release, in order to precisely give market participants a clearer view of what is going on. We are working hard in this direction, we are trying to do that, but it's still an issue that requires some additional work, but in this aspect, specific aspect, I believe that we could improve our communication with the market.

As for the CADE, I would not like to make comments in public for the future or speculate on their future decisions. We are presenting our arguments to them, we are discussing our views, we are showing that we are investing heavily in our operations to meet our clients' needs; we are investing to expand our capacity by 20 million tons this year; we provide iron ore to our Brazilian clients at a fraction of the price that is charged to our clients, because they are near our mine, so they pay just a percentage of the full price, FOB price, as they are closer to our operations; we are showing that we are the largest investor in logistics in Brazil; we are the largest investor in Brazil as a private company, so we are showing our arguments and more than that, we are indicating our willingness to continue to invest and to provide our clients with the best service and product and we believe that we have very strong arguments in this, very strong facts to show, but let us wait for their decision. We trust they will make a wise decision in this area, because it is very important what we did, what we have done and what we can continue to do in our business. We are a global player and we compete in a global world, in a globalized world, so I believe that the facts will prevail. Thank you. The contract. No, there has been no other offer of contract to us so far.

Mr. Altman: OK, thank you very much.

Mr. Barbosa: Thank you, Daniel.

Operator: The next question comes from John Tumazos of Prudential.

Mr. John Tumazos: With the production curtailments of several European steel makers and other steel makers around the world, are you experiencing any postponement or delay of shipments and how much is your capacity to



hold inventory in Brazil? Physically, how much stockpile warehouse capacity do you have?

Mr. Barbosa: OK. Thank you. On the steel production in general, first quarter we saw a very strong performance, we have been hearing things about reduction in production in by some players, but so far no indication about any client of ours of reduction in shipments and I would say that this, if this happens, there will be a lot of people waiting to take it. That is what we have right now, so we have, we still have clients asking for more ore and pellets than we are able to deliver. So there has been so far no consequence in our shipments of these measures adopted by some few steel makers. As for our capacity to stockpile in Brazil, we have a pretty good capacity if that was the case, given that we are not only have several yards in the several ports we operate, but they are empty; there is no stock, inventories in our ports and that is part of the explanation of our demurrage cost that I just commented a few questions ago. So the problem we are facing now is precisely the other way round; we don't have enough inventories in our ports. This is not an issue for us and we are also expanding our capacity for future production increases. Thank you.

Mr. Tumazos: Thank you.

Operator: The next question comes from Ms. Ciria Sundal, of Howe Robinson.

Ms. Sundal: Hi, I have a question. The question the demurrage expenses in Q404 raised to US\$ 43 million according to the report. What is the reason for this massive increase in Q404?

Mr. Barbosa: In that case, it was some accumulated charges that were not fully accounted for, previously due to operational problems with the implementation of our EIP system, but now they are fully accounted for in the quarter they are occurring.

Ms. Sundal: Thank you.

Mr. Barbosa: Thank you.

Operator: The next question comes from Margaret Kalvar, from Harding Lovener.

Ms. Kalvar: Hi, Could you comment on the current macroeconomic environment in Brazil, particularly on the impact of the exchange rate and what you see of that going forward?



Mr. Barbosa: Yes, a little bit. In the case of Brazil we have been observing the implementation of a very sound set of policies; fiscal policies continue to be very strong with us; monetary policy is very tight and balance of payment is showing, indicating a comfortable position and the appreciation of the exchange rate it has to do with, of course, the depreciation of the US dollar abroad against several other currencies, but also a little bit with the strong monetary sense that is in place out there. The international scenario is changing a little bit, particularly after Mr. Greenspan's move in March, late March and we've seen in the last few weeks that there have been some turbulences in markets, in some additional volatility, we commented on our specific industry that performed very well last year and beginning of this year and then in the last two months a major reduction in market cap of currency, specifically in our industry, and capital markets in general, they are not having a great year so far. There was a little change in sentiment; there will be, in our view, a little bit less liquidity available worldwide and the US is may be absorbing a huge volume of Dollars with those moves in the tax area and this could affect, but not something that would change remarkably the international scenario that we see, but it could represent some pressure on liquidity for an early economy like Brazil, and in this regard could interrupt a little bit, the appreciation of the Real, but inflation is under control given the very strong monetary policy that is in place; the economy should grow again this year and we believe that it is in the right path.

Ms. Kalvar: Ok, thank you.

Mr. Barbosa: Thank you.

Operator: Next question comes from David Mills, from JDM Capital.

Mr. David Mills: My questions have already been answered, thank you.

Operator: The next question comes from Gary Lampard from Canacord Capital.

Mr. Gary Lampard: Yes, thanks. My first question; the queuing results didn't include the higher iron ore prices negotiated. Does that mean that none of your contracts are settled on a calendar year basis?

Mr. Barbosa: No, it means that the negotiations were concluded March 31st, so when we reached final agreement with Thyssen. So actually we have contracts that are based on the calendar year and we have other contracts that are based on the Japanese fiscal year, starting April 1st, so it has been our procedure for the last few years to account for a price reduction immediately and to account for a price increase just when it's actually in place. That enables us to not include actual effect of the price increase in the first quarter because negotiations were concluded only on March 31st, ok? Then, in the second quarter we should see the implementation of this price increase



and also some retroactive effect of the contracts that we have based on the calendar year.

Mr. Lampard: But what I mean, rather than assuming that something like 40% of your contracts are in the calendar year basis, should we expect that all of that adjustment would be reported in Q2?

Mr. Barbosa: We hope so, as we mentioned, we have to sign the contracts but there is no reason why they shouldn't be signed by then. But so far, it is our expectation to reflect the price increase from the second quarter onwards.

Mr. Lampard: Ok, thanks, but you reported a much lower tax rate this quarter compared to last. Can you run through the reasons for that and may be give some guidance for the rest of the year?

Mr. Barbosa: Well, the tax rate in December, the last quarter, they suffered from sectional factors; the sale of CSC was concluded, the capitalization of FCA, among others. So that was an exception on the level that should not prevail and now we are back to more normal regular levels.

Mr. Lampard: Ok, thank you.

Mr. Barbosa: Thank you.

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

Mr. Barbosa: Thank you very much and just to remind you, we will be, myself and my team available for any further questions you might have in this 1st quarter result or the information about the company. Thank you very much.

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