VI. Transcrição da Teleconferência

INTERNATIONAL CONFERENCE CALL

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1ST QUARTER 2006 EARNINGS RELEASE

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Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to the CVRD's conference call to discuss first quarter 2006 earnings results. If you do not have a copy of the relevant press release, it is available at the company's website at: www.cvrd.com.br at the Investors Relations link.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time.

If you should require assistance during the call, please depress the star followed by zero. As a reminder, this conference is being recorded and the replay will be available until May 22, 2006. To access the replay, please dial (55 11) 4613-4532 (access code: 398). The file will also be available at the Company's website at www.cvrd.com.br at the Investors Relations section.

This conference call and the slide presentation are being transmitted via internet as well. You can access the webcast by logging on to the Company's website, www.cvrd.com.br Investors Relations section or at www.prnewswire.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of any 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 proceed to the presentation and after that we will open for Questions and Answers

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

Mr. Fábio Barbosa: Thank you very much. Good afternoon ladies and gentlemen, it is a pleasure to be with you today. We have with us here to colleagues of ours: Mr. Gabriel Stoliar, our Executive Director in charge of our Strategic Planning and Control; and also Mr. Murilo Ferreira, our Executive Director in charge of New Business Development.

Let us start our discussion today with the presentation. We have two sections: the first we comment on our first quarter results and I will ask my colleagues here to make some specific comments in some areas, I think it would be interesting for everybody and finally we will comment on what we see as a very benign scenario, very benign environment for the industry of mining and metals.

Let us start with the performance in our first quarter of 06. We delivered two production records in the first quarter of 06: alumina, 728,000 tons of alumina in the first quarter, already reflecting the ramp up of our Alunorte expansion, stages 4 and 5; potash, 185,000 tons, also reflecting the expansion of aluminum capacity through 850,000 tons from 600,000 tons previously.

A point that we would like to highlight is the fact that iron ore production, for the first time, we were able to overcome the seasonality, the very heavy rainy season that disturbed our operation, but despite that, in terms of production we were able to deliver slightly 100,000 tons more, or to produce 100,000 tons more in the first quarter of 06, compared to the fourth quarter of 05, that usually is much stronger, as you can see in the chart that should be before you now.

Our revenues growth reached almost 50% on a year over year basis and price, of course, we managed to increase our production, but prices – reflecting the cycle we are living through right now -they represented a major contribution with over US$1 billion in total, compared to the same period of last year and this was also felt in terms of Ebitda.

Our Ebitda in the first quarter of 05 was US$ 993 million; the first quarter of 06 it was US$ 1,629 million, a major change in dimension of our company that was determined in large part by the strong contribution of prices.

Of course, that was slightly countervailed by the sharp appreciation of the real that took us US$ 233 million in terms of positive impact in Ebitda derived from prices.

Another important aspect is that, and this was an issue of some concern in the last discussion that we had, is regarding costs. In the last conference call, we mentioned that we, in our view, cost pressures were easing and the trend would be some stabilization of the marginal cost pressures and that is precisely what we observed in the first quarter of 06, when the cost of goods sold declined from US$1.8 billion to US$1.7 billion.

Even adjusting for volumes, you see that there was an important reduction there and at this stage I would like to ask my colleague, Gabriel Stoliar, to comment a little bit concerning cost reduction initiatives that we are adopting in our company. Gabriel, please.

Mr. Gabriel Stoliar: Good afternoon everybody. The idea here is that we have been, for quite a while, investing in programs that intend to reduce costs and increase efficiency in the company. But of course, with the market very heated, the focus is to mainly be on granting quantities and therefore benefiting from this heated market.

Now we are going to put a lot of focus on operational excellence and cost reduction because we believe, as we are already getting some very significant cost reduction in terms of unit costs, that all this work can be fully linked to the company's budget and the company will be able to get very clear trends from the operational areas towards implementing operational excellence and therefore getting the cost-reduction.

This will cover not just the operations in which, besides the operations themselves we will focus a lot on automation and linking the automation systems with the ERP, but also that would also cover corporate costs and SG&A and Capex expenditures. So that we intend to have this concept of operational excellence covering all of the operations of the company.

We, of course, expect that all these action plans - that will translate into various targets that will be achieved along the time – will, of course, obtain some quick wins that we expect that will be expressed already in 2006 results from now on.

Mr. Barbosa: Gabriel will, of course, be available for the Q&A session just after this initial presentation. But with this effort that we are starting to put in place and the strong performance in the revenue side, the fact is that we managed to achieve a very impressive number for our net earnings and also our Ebit margin, that reached 40% in the first quarter of 06 and in terms of net earnings we presented, for the fourth consecutive quarter, a figure above US$ 1 billion. So it is an impressive performance and again just consolidating the change of dimension, of size, that our company achieved in the last few years.

And the very next chart confirms this view with the performance of our Ebitda, that just three years ago, four years ago, was US$ 1.5 billion in the first quarter of 02 - for the last 12 months ended in March of 2002 - and now, in the first quarter of 06, this figure reached US$ 7,176 million. It is an impressive performance, of course benefiting from the very good momentum of the industry as a whole, but, as you all know, our company was able to outperform our peers in this period.

In terms of our balance sheet, we managed to implement an aggressive investment program, but at the same time we managed to keep our balance sheet in a very sound status, so total debt reached US$ 6.1 billion in March, because we XXX most of our XXX program in the first quarter of 06, but net debt was US$ 4.4 billion; total debt/Ebitda was below 1, was 0.84, a very sound figure; at the same time, the interest coverage almost doubled the indicator for this variable in 2005, in March 2005, with 27 times at this stage; total debt enterprise value reduced actually from one year ago, from 11 to 10.3 and we managed to increase sharply the average debt life to almost 8.2 years, from 6.7 years, that was already a great figure in March 2005.

And, as I mentioned, we were able to keep this very sound balance sheet despite investing heavily, with an aggressive Capex program and, as you can see in the next page, we delivered in the last four years 16 major projects that are very much behind the transformation of our company. Projects that, together with our assets, implied in a return on invested capital averaging 33.7% per year since 2002.

It is an impressive figure and the latest one was precisely Alunorte stages 4 & 5, that has had an impressive ramp up. I would like to have Murilo Ferreira commenting on this issue. Please, Murilo.

Mr. Murilo Ferreira: Good afternoon, everybody. We are really very happy with the impressive ramp up of the Alunorte refinery. As you know, most of the refineries spend at least three, four months in order to reach the full capacity in terms, in annual basis and in this expansion of Alunorte line 4 we took just 20 days and we overcame our own record in the line 5, when we reached the full capacity in just 12 days.

Really, we are very impressed with these numbers, with our team, the commitment to improve substantially our operations and what I can tell you is that we intended to start to receive also bauxite from Paragominas. The project is on time, on budget, regardless of this cost that is increasing substantially.

Of course, we have to exclude the effect of the exchange rate variation, but both projects - the Alunorte expansion number 2 and the Paragominas, that will start the operation in the end of this year - what we can tell you is that we are very happy that the numbers that we are facing.

Mr. Barbosa: To resume our comments, also the important issue of energy costs. We, in our chart, we are showing, that we managed to increase through all investments - some of the investments that we just commented, that were delivered in the last few years, for instance, Aymorés; Candonga; Funil; and more recently Capim Branco, all power plants that allowed us to increase the share of CVRD generation from 8.7% to 18.7% in total consumption of the company.

And also, we have been able, as a cost control manager, we have been able to access more energy through the free market, increasing or mitigating partially the negative effects of the higher cost we are observing in Albrás' energy supply.

Turning to the general scenario for our industry, the very title of the section explains our view, it is a benign environment for the industry and for CVRD in particular. In fact, the current expansion cycle is the longest since 1970 as we put there, and we have been telling market from some time now that we believe we are living a secular trend, a structural change. The figures that we are collecting just confirm this view.

The global economic expansion, again, growing above 4% for the fourth consecutive year, as we put there, and the great, the major driver, which has been the Chinese economy, continues to show very strong performance. Chinese GDP growth reached 10.2% in the first quarter of 06, very much in line with our own forecast - and I remember in the beginning of the year our forecast in CVRD was considered somehow optimistic - but it is very much in line, the figure that we just achieved, with 10.2% and the good news is that is not only China that is performing well, but also a new force is coming into play. That is precisely India.

We do believe that Indian economy will be a major force that will affect sharply the fundamentals of the mining metals market. In fact, you see there in the chart the cumulative growth rate of the steel industry in China has increased sharply in the last five years and in 2005, compared to the 10 years ended in 2000 indicating, very much in line with our expectation, which is the strong growth performance of the Indian economy associated with a focus on the development of the steel industry domestically.

That will represent, in our view, a major potential disturbance in the supply/demand balance of the iron ore seaborne trade, as India is responsible for almost 25% of the Chinese imports of iron ore.

It is interesting to note that the marginal growth rate of Indian ore exports with China has been sharply reduced this first quarter of 06, so we do believe that there is much more to come and not only iron ore, but other minerals and metals should be affected by this strong performance.

In terms of the global economy as a whole, we see an environment in which growth is happening everywhere. A more balanced industrial production growth is observed there in the chart about the manufacturing industry that we put there and, of course, together with this positive environment, steel prices are recovering sharply across the world.

Asia, Europe and North America, they are simply reflecting the strength of the aggregate demand on a worldwide basis and they are pointing north, which is natural and is very much in line with our expectations, although they have been surprising us with the intensity of the price increases that we are observing.

The Chinese fixed asset investment continues to grow at a very steady pace, no slowdown whatsoever, almost 30% growth even with the sharp increase in interest rate the situation continues to be very similar to what it was in the beginning of the year, so growth is happening actually on the ground, and Chinese iron ore imports are growing fast, as well. As we put there, an all-time high figure was observed in March 06 and the first quarter they imported 28% more than the first quarter of 05.

If, as an exercise, they replicated the same growth rate for the rest of the year - and we are not forecasting that - but if they replicate, it will represent almost 80 million tons more of iron ore imports this year.

At the same time, Chinese iron ore inventories are on a downward trend, as you can see there in the next chart, in which we compare the monthly pig iron production with the iron ore inventories.

From time to time we hear comments about the size of the stockpiles and then what we argue is that the production has increased.

Now we are showing through a chart that is precisely the downward trend in stocks, in inventories at the ports, another indication of the strength of the market.

And the spot iron ore prices remain well above benchmark prices. They are about US$ 19 per ton or US$ 18.30 per ton above the benchmark price. Comparing with the FOB price - and this is just a comparison - this will be a premium, on a FOB basis, of roughly 45% on the benchmark price, so it shows you that the market remains extremely strong and there is no sign of deceleration whatsoever.

Turning now to the aluminum market, I will like Murilo to make some comments on the fundamentals of the market, how he sees pricing and the inventories of aluminum and alumina, as well.

Mr. Ferreira: I think that again we are seeing some structural change and it is unlikely to see any kind of reducing in a short term, at least. What we are seeing is that most of the commodities they are adjusting with the new scenario and the aluminum is not so different. What we needed is much more in terms of power.

Power is a very important raw material to produce aluminum, as we needed also alumina and alumina is very expensive, we have just two new refineries, exception of China, into the world and we are paying now for the investor, when they decide not to invest so much in the alumina and we needed to follow the market, but what we are seeing is that, in terms of adjustment, we needed to see the long-term forecast for commodity price as a rule in a new scenario.

Mr. Barbosa: With that note, we just inform that alumina, as a percentage of the LME price is now is 22%, 23% in a spot basis. We do sell some alumina in the spot, 10 to 15% of our total production available and the aluminum price is reaching all time record levels for the last 10 years at least, almost US$ 2800.

And finally copper prices, this chart that you see there is somehow obsolete, because this week the copper prices reached US$ 8,000 per ton or US$ 3.62 per pound, it is a record. It is an impressive figure, even in our most optimistic comments we did not - to be very frank with you - we did not think that we could see such a price level.

With that comment we conclude the first part of our discussion today and myself, Murilo and Gabriel will be available for any questions you may have. Thank you very much.

Q&A Session

Operator: Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, please press star (*) two (2). Please restrict your questions to two at this time.

Our first question comes from Andrea Weinberg, with Merrill Lynch. Please go ahead.

Ms. Andrea Weinberg: Hi Fábio, Gabriel and Murilo. A quick question, may be for Fábio and Gabriel on the cost initiatives, on the cost cutting initiatives that you are taking. Do you have any idea of how much this could imply in cost savings in a yearly basis?

And the second question will be that you have been showing in your presentations that the lag time in the delivery of equipment, trucks, tires, etc., is actually longer than what you showed in previous presentations. And some of your competitors have been recently stating that the shortage of labor; equipment; tires is actually bigger this year than what it was last year. Are you experiencing any delays on your project development? And if you are experiencing delays, how long the delays are?

Mr. Stoliar: Andrea, let me try to explain, because we are not in a position to commit ourselves to targets, or to cost reduction targets today. The idea is that we are working a lot on benchmarking; in standardizing and we are using the best practices, the best practices operations throughout the company's operations and we foresee that in this year's strategic planning process, which includes the budget process, we will end up linking most of these action plans to cost reductions that will be fixed and introduced in the budget.

And as I said before, there are many things that are coming out of this work that will prove to be quick wins and therefore the results will be strong in this year's results. For example, we see that there are many third party contracts. Because of a matter of urgency, they have been - because of the very heated market - signed and XXX at hard prices and there is room to consolidate; integrate; optimize these contracts and obtain some gains.

Also some of these contracts, specially in services, they tend to transform variable into fixed costs and we need to invert this and lastly, for instance, working capital is something that can also be reduced, there is a lot of room for optimization there, regarding optimization in inventories, etc. and some cost gains are to be obtained there also.

About the difficulties that we have been facing, that you mentioned, like for instance getting tires for the trucks and for the tractors and this type of things, they are still there in the market.

We have to buy eventually trucks; tractors; equipment in one country; tires in other country and that creates some difficulties, but of course this is the type of thing that, in the very first moment, you have more difficulty, along the time you get in touch with different suppliers, your arrange ways of reducing the lag times for the delivery on this, of these equipment and parts and we are managing to reduce the problem, although we have to accept that we still face and will continue to face this type of problem, not just us, all of the industry, because thank God, on the other hand the market is very heated up and all of the cost increases end up, on the other hand, in price increases that more than compensate that. But of course, in terms of operation excellence, we need to improve our performance.

Ms. Weinberg: Ok, thank you.

Operator: Thank you for your question, Ms. Weinberg. Our next question comes from Jorge Beristain, from Deutsche Bank. Please go ahead.

Mr. Jorge Beristain: Hi. My question as well is about cost control and I am just trying to understand we have noticed that your SG&A, or your general operating expenses, have gone up quite a bit quarter on quarter and has there been any reallocation, from an accounting point of view, perhaps in contracts, services to move them out of the cost of goods sold line and into the operating expense line? That is my first question.

Mr. Barbosa: Thank you Jorge, there is no change in accounting figures, that is the number.

Mr. Beristain: Ok. My second question has to do with the rate of production that we are seeing in iron ore. Do you believe that things will normalize again in the – or more specifically, I guess, the sales of iron ore - into the second quarter? Have you gotten through these land invasion issues and issues of the protest along the rail lines?

Mr. Barbosa: Yes, we did. In fact we faced not only that, but a much heavier rainy season than we were used to, so the fact that we - even with all these problems - have been able to show a very strong production figure, indicates our effort to keep up with the market requirements. Our expectation is to try to offset at least partially what we lost in the first quarter in terms of production, although it will not be an easy task.

I have a picture that was taken two weeks ago, I believe, in our port, Ponta da Madeira port, and it is impressive. Simply we show a picture of the yard, that supposed to have iron ore there waiting to be loaded in the ships and there is no iron ore at all in the port and in all yard there.

The fact is that we are operating in, I would say, a just-in-time basis and if we lose production is very hard to compensate this lost production in the future quarters. That we will try to do, but it is not an easy task, Jorge.

Mr. Beristain: Thanks. So you are standing by your full year stated goals of tonnage so far, for 2006?

Mr. Barbosa: Yes, we have not changed it yet.

Mr. Beristain: Thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Beristain. Our next question comes from Daniel Altman, from Bear Stearns. Please go ahead

Mr. Daniel Altman: Hi, thanks very much. First question is, there is a couple of very high-profile mining assets that are openly for sale XXX and Southern Copper, just to name two. I wonder if you can give us a sense of what your thought process is in terms of organic versus acquisition, if it has changed at all given current asset prices and whether you are taking a look at either of these two assets today?

And then the second question is, again CSN yesterday talked about, or I guess confirmed, that things are on track to get to 40 million tons of ore in the first quarter of OA and I was not that far away. I am just wondering if you are working in the field, if you are hearing from customers about an acceptance of this ore, if they come to you, if CSN has come to you with additional contracts for you to take or not? Thanks.

Mr. Barbosa: Thank you, Daniel. On the strategic approach we do have here is, as you well know, organic growth is our priority, and our first priority as we believe that it is the best way to seek growth. We have not changed a bit on that and even with this very excited market that we see today, we have not changed our minds because we do believe that organic growth is the best way.

Of course, as we always comment, we are always analyzing alternatives and I am not saying we are analyzing these specific two alternatives that you are indicating here, I am simply making a generic comment, a conceptual comment. We always look , we always analyze potential alternatives for CVRD. But our focus is organic growth.

On the second issue, CSN, frankly Daniel I have some difficulties in answer that, because you know, we have been hearing for some time now on production and expansion in Casa de Pedra, that they are talked about, but at least that we can notice a major change, we did not see the additional production coming, at least when the original plans established as a target.

I don't know, 40 million tons by the first quarter of 08, I don't know, it is not in our view a relevant amount, an additional amount in the market. It should not affect the market and, if and when it happens, we will give the due consideration to this potential, again, potential supply and analyze according to our commercial needs and according, of course, with the rights we have under contract with CSN. But let us see first if it actually happens.

Mr. Altman: Thanks. Are you still expecting to receive any order of 3 million tons from them in the second half of this year?

Mr. Barbosa: We did not get a ton so far, we did not get a single ton, so I am not sure. We are not counting on that.

Mr. Altman: Ok, thanks very much.

Mr. Barbosa: Thank you.

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

Mr. Paolo di Sora: Hi. I have two questions. The first question is regarding the pellet business. We have seen a quite strong drop in your pellet sales for the year, for the first quarter. If you could give us a guidance of what is your expectation on pellet sales for 2006 and going forward?

And my second question is on logistics. We have also seen flat volumes year over year in your logistics performance. Could you give us a guidance of what is the trend on your logistics business in terms of transport volume going forward?

Mr. Barbosa: Hello? Ok, Paulo. Thank you for your question. The pellet, in fact we are seeing a much more dynamic growth rate in Asian steel making industry and this explains what we did in terms of reallocating our XXX to that market. However, as we also pointed out in this presentation, growth is resuming on a strong pace in Europe as well, which is a large consumer of pellets.

So I am not saying that we recovered fully all the reduction that we observed in the quarter, but we actually expect some resumption, or some recover of this market throughout the year as the world economy is growing fast, all the regions across the world are growing on a very steady pace and Asia is like Asia always, so a very good scenario ahead of us and we expect some reaction there.

As for logistics, we did have a performance that was affected by the performance of agriculture, but mainly due to the performance of the steel sector. Of course, we had this problem with the CSN blast furnace, that has not resumed operations as yet and as it is an important client for our general cargo business, we will be - if they actually resume operations on the blast furnace in June 15, as they stated - we may have some recovery there during the year. And we will know that very soon, by June we will know that, if they were able to resume cargo, because there is a very important cargo on calcario and coal and, of course, iron ore as well.

But the fact is that we don't know. Let us hope that they actually resume operations on June 15, as they established, but other than that we see the harvest is happening right now, it was a performance less impressive than we would like to see and the appreciation of the exchange rate is affecting several producers and we should expect a more modest growth from now on.

Mr. di Sora: Ok, thank you.

Operator: Our next question comes from Katie Blacklock, with Thames River Capital. Please go ahead.

Ms. Katie Blacklock: Hello. My question was on the copper division. There are obviously operational problems that led to much lower volumes in the first quarter. Now I know in the press release you talked about regaining the annualized rate of 120,000 but can you give us some guidance for what you expect for volumes for the full year this year?

And then my second question is just on the personnel cost. There was a sharp rise year on year in personnel costs. Can you tell me whether that was actual salaries going up or an increase in personnel or what kind of combination of the two that was? Thank you.

Mr. Barbosa: Thank you, Katie. Well, on copper we indicated our expectation about resuming production at a trend of 120,000 tons of copper content and this is actually happening. The production has increased in the last few weeks and we are running a very, very strong rate but, of course, we were deeply affected by the poor performance of the first quarter of 05. So we may be operating at the trend of 120, but the final year could be slightly less than that, ok?

Ms. Blacklock: For the second quarter you would expect ...

Mr. Barbosa: A much stronger performance.

Ms. Blacklock: At an annualized rate of 120 in the second quarter already?

Mr. Barbosa: It is likely, it is likely to happen to see that. So far, fortunately we were able to fix the mill, the bending mill there that had a problem with the engine. We were able to fix, but we lost production, weeks of production the first quarter.

We don't expect it to happen again, because it is a singular or peculiar event. So we are improving our operations and we hope to present much better results in the second quarter.

As for personnel that you asked, on a US GAAP basis we increased by almost 15% our total number of employees. We had about 32.5 thousand employees in the first quarter, on December 05; in December 06 this number was about 38,000 people. More than that ...

Ms. Blacklock: You said it was 38,000 in the first quarter of this year?

Mr. Barbosa: Yes. December 05, December 05, ok? It is a virtually stable figure for the first quarter, ok? And at the same time we had the salary adjustments of 6.5% last year, combined with the appreciation of the real of 18% or so in the last 12 months and finally we paid this year the variable compensation, the profit sharing in total in the first quarter of 06 and the last year it was partly paid in the last quarter of 04. That makes up for the difference, ok?

Ms. Blacklock: Ok.

Mr. Barbosa: Thank you, Katie.

Operator: Our next question comes from Oscar Cabrera from Goldman Sachs. Please go ahead.

Mr. Oscar Cabrera: Hi. Good morning, good afternoon gentlemen. Just a question with regards to your iron ore supply chain. Supply chains around the world have been impacted by cost pressures and in the past presentations you mentioned the fact that you would like to get your capacity utilization down to 95%. I was wondering, if this figure was to be put into your budget, would you be able to meet your target of 300 million tons in 2007? That is the first question.

The second one is just if you can remind me what percentage of your sales in alumina goes to the spot market? Thanks.

Mr. Barbosa: Ok. On the first issue, Oscar, we never said that we want to bring our capacity utilization down to 95. We said that the industry, we have been saying that the industry has operated for more than two decades with an idle capacity of around 7% of the total production. This was the level the industry operated since 1980 until recently.

What we have been saying is that we need some spare capacity, yes, to build, to create, to increase our capacity up to a point that will reach some idle capacity, but that has not been the case, in spite our effort.

Remember that in 2001 our production was 134 million tons; in 2004 and in 5 our production was 234, we grew one BHP in our iron ore division in five years and now we are scheduled to increase our production, by 2007, to reach 300 million tons and this continues to be our target. I will ask Murilo to answer on your point of alumina.

Mr. Ferreira: We have two different sources of material in the spot market, the first one is our take, CVRD take in Alunorte and the second one in case of having some surplus in Alunorte. As I point out, we are doing much better in Alunorte and we expect to have some material to sell and we have also in CVRD our commitment to deliver material to Albrás, to Vale Sul and to different customers, but in the end what we are forecasting is to have in a range of 18% of our take to sell in the spot market.

Mr. Cabrera: Thank you.

Operator: Thank you for your question. Our next question comes from Edmo Chagas, from UBS. Please go ahead.

Mr. Edmo Chagas: Hello, good morning. I have two questions. The first one is related to your working capital requirements. According to your cash flow statement, you had an increase in working capital of about 788 million the first quarter. How much of that working capital you expect to recover going forward for the year, given your cost reduction efforts and the operation as well?

And second question is related, could you remind me how much of the production of aluminum is still tied up to those hedge contracts that generated some losses in the first quarter?

Mr. Barbosa: Murilo, why don't you ...

Mr. Ferreira: About aluminum, what I can tell you is that in average in 2006 we are hedging roughly 12%. Of course, much more in the first half of 2006 than in the second half. In average will be roughly 12%.

Mr. Barbosa: As for your question on working capital, that is precisely the initiative that Gabriel and myself will be working together to deal with.

In fact, this is the result, Edmo, of the priority to reach additional production in order to meet our clients' needs and this means that in order to have operational security, let us say, in order to ensure that we would be able to prevent any interruption of production, we may have overlooked or exaggerated in the acquisition of parts and components that are in our inventories now that in normal circumstances would not be.

We have to reduce this component and I will fully endorse what Gabriel has just said, we are not able to put a quantitative target right now, because we are actually working at full capacity and we have to check what are the parts and components that will be necessary to work with and we are not able to give a precise figure. But it is a major priority and you are right indicating for us.

Mr. Chagas: Ok, but you feel comfortable that a part of that working capital increase may be recovered through 2006?

Mr. Barbosa: Yes, definitely.

Mr. Chagas: Ok, thank you.

Operator: Thank you for your question. Our next question comes from Jorge Beristain, from Deutsche Bank. Please go ahead.

Mr. Beristain: Yes, good morning. I wanted a few follow-up questions. What is on the iron ore price negotiations? Obviously things are becoming very public lately with CVRD officials again being quoted in the press recently saying that they might even exceed the initial 24% ask. Could you confirm if this in fact is a true statement?

Mr. Barbosa: Well, Jorge, what we said - was Tito Martins yesterday, at the press conference, answering a question - that when we established, or indicated our compromise solution for the negotiations - considering the level of the spot and considering the trend of the market - that we would be accepting 24.6% price increase as a compromise solution, we had different conditions from those that prevail today.

That is what he said and since then there was some more appreciation of the real hurting our costs directly, as you can see within our figures, and since then the steel prices recovered, since then iron ore imports strengthened and the world economy is growing faster.

So scarcity, compared to the level that we could observe by the time we issued our idea, scarcity increased and he just made a logical statement saying that the conditions are different now from what they were before and that yes, it is possible to reconsider upwards the figure that was initially discussed on the table.

Mr. Beristain: Ok. My second question is, given that the iron ore negotiations are running so late this second quarter, even if you were to settle the prices theoretically tomorrow, would it be possible to book any of the price increases in your actual second quarter results, or is it now coming too late in the quarter - from an accounting point of view - to reflect any of the price again?

And my question comes mainly from the point of view of comparing 2Q06 to 2Q05, where you did in fact book the price increase plus the retroactive price increase and I am just trying to understand how your numbers might look if this negotiation drives on a little further.

Mr. Barbosa: Ok. Jorge, as a rule, when we have a price increase, as we are expecting, we book the price increase according to the signature of the amendment we contract with our client. We never book before the actual document is ready, ok?

So we may, if in your idea we reach an agreement today or tomorrow, the actual booking of the contracts will depend on the speed which we are able to sign these amendments, as we did last year, ok? Remember that we had some marginal effects in the third quarter of 05 due to this time difference, ok?

Mr. Beristain: Ok, and sorry, if I can get just one more question related to your costs. Your guidance has historically been that for 1% change in the real you experience about a US$ 20 million loss of Ebitda in the case of an appreciation.

Just comparing the euro on your numbers in the second, sorry, in the first quarter you mentioned that roughly US$ 200 million worth of the increase in costs of goods sold came from the real appreciation, which was 17% point to point, on average.

But applying this rule of thumb to the full year basis would imply a cost inflation much closer to US$ 800 million, or US$ 40 million of Ebitda for every 1% change in the real.

I just wanted to ask if, as the real appreciates more, are you perhaps now facing an even stronger negative correlation to the real at these levels?

Mr. Barbosa: There is a component of structural change there given the change in the very parity of the real and, of course, the total composition in reais may have changed a little bit and this would yield some change in the rule of thumb that you referred to.

But I am confident that our work together with Gabriel, we will be able to address this concern and maybe to bring it closer again to this rule of thumb. It is not a target, again it is just a reference that you are giving, but what we observe is the result of the cost pressures and the change in the weight, the total weight of costs, of real costs in the total costs of the company.

In other words, we will address this, but we would not like to give you at this moment, at this stage, any specific figure, ok?

Mr. Beristain: Thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question. Our next question comes from Daniel Altman, with Bear Stearns. Please go ahead.

Mr. Altman: Thanks. On your ferrous-metals, ferrous-minerals division in the first quarter your margins were down a little over 300 basis points. Was any of that because of the railway blockages and do you think that you can beat that 45% margin in the first quarter, the second quarter or is this most of the decline in the margin more of a structural increase in costs?

Mr. Barbosa: Well Daniel, I would say that it was a combination of a very heavy rain season that affected our production there in the northern system and, of course, the blockade of the railroad that also affected our production in the southern system as well, but the main issue there was the rainy season in the northern system. This is the one that affected sharply our operations and it is seasonal.

The issue today, at this time is that it rained much more in the first quarter of 06 than it used to rain in the first quarter of 05 or 03. That is what happened and that affected, of course, our cost there.

Mr. Altman: Ok and then the other question is - and sorry to ask really difficult to answer questions - but when you talk about another quote that has come out in the press is that one option for CVRD would be to circumvent the contract market, or go away from the contract market and sell more spot sales.

Is that a strategy – I know it is not a formal strategy - but is this something that, if you are unable to reach a deal with the Chinese, would you still go back to your traditional customers in Europe and Japan and say: You are welcome to take the contract price of this and just to make China spot market customer? Or are you thinking everybody becomes a spot market customer if you can get a benchmark price with China?

Mr. Barbosa: Well Daniel, I will be very straightforward. I believe that we will be able to reach a satisfactory agreement without lying and this will happen, we are in a learning process, I would say, ourselves, our clients and this is part of the pressing changes that are taking place.

We are confident that we will be able to show, we will be able to reach a reasonable agreement, because we do believe in market fundamentals.

The market fundamentals are clear and they will eventually prevail and at the end of the day our obsession is to create and generate shareholders' value, so we will be always seeking the best alternative for our shareholders, ok? Thank you very much.

Mr. Altman: Thanks.

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

Mr. Barbosa: Well, I would just like to thank you all for attending this conference and also my colleagues, Gabriel and Murilo, for being here with us today and all our staff at the investor relations and accounting department. As usual, we will be available for any other questions you may have related to the company and its figures. Thank you very much.

Operator: That does conclude our CVRD’s 2006 Investment Plan conference for today. Thank you very much for your participation. You may now disconnect.