



**LOCAL TRANSCRIPT**  
**CVRD INT'L – (705)**  
**SECOND QUARTER 2003 RESULTS**  
August 15, 2003

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

At this time I'd like to turn the conference over to Mr. Dirceu Cunha from Thomson Financial. Please go ahead, sir.

**Mr. Dirceu Cunha:** Good morning ladies and gentlemen, thanks for standing by and welcome to CVRD's conference call to discuss second quarter 2003 results. I am Dirceu Cunha with Thomson Financial Investor Relations.

I would like to mention that a slide presentation has also been made available on the company's website at [www.cvrld.com.br](http://www.cvrld.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 those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

During this presentation we may refer to various non-gaap financial measures, so please visit Investor Relations Section of the company's website: [www.cvrld.com.br](http://www.cvrld.com.br) for a reconciliation of these non-gaap financial measures to the most directly comparable measures.

With us today in Rio de Janeiro this morning is Mr. Fabio Barbosa, CVRD's Chief Financial Officer.

First Mr. Barbosa will comment on the second quarter 2003 results. Afterwards, Management will be available for a question and answer session.

It is now my pleasure to turn the call over to CVRD's Management. Mr. Barbosa, you may now begin.



**Mr. Barbosa:** Thank you very much. Good afternoon ladies and gentlemen and thank you all for attending this conference call on our second quarter results. This presentation is divided in three sections: first, some highlights on our performance, then a comment on our latest operations in terms of fund raising and finally macro economic and business outlook.

Let's start with the second quarter 03 highlights and I would like to mention the very good performance, the very strong performance in our top line, 14.5% year over year and also in our net earnings line, US\$ 470 million year over year, in addition to what was observed in the second quarter of 02, when there was a small loss of US\$ 14 million.

The company continues to present a very strong cash generation, a very good sales performance, although limited by capacity limit, we do have and we do face and we are dealing with that, by investing or speeding up investments, increasing capacity mainly in the northern system; at the same time we manage to keep our discipline in capital expenditures, in the total for the semester about US\$ 647 million; and finally, this very good performance in cash generation, in volumes and performance in sales, allowed us to show our commitment to our shareholders, by paying additional dividends to the ones that were anticipated in January, when we announced the minimum dividend payment for 2003.

Turning to a more detailed view of our sales and EBITDA, in the second quarter of 03 our gross revenues reached US\$ 1.2 billion and in terms of products; iron ore and pellets responded for 61.5% of our total revenues; the aluminum chain, as a whole, 15.4%, already reflecting the start-up of the Alunorte expansion recently; logistics 11,3%; manganese and ferrous alloy, very good performance, 7.3%; kaolin potash, 3.9%; and a decline gold share in total revenues due to the exhaustion of our mine and also the reduction in production in Fazenda Brasileira.

In terms of markets, 33.2% of our revenues were in the Brazilian market and Europe continues to be the main market abroad, with 30.9% of our total revenues; Asia, as a whole, is about 21%, 21.7% is second most important region; US, still a small presence of ours there, 3.4% and the rest of the world, 10.8%; so, we continue to show a very nice diversification, in geographical terms, in our total revenues.

As for the EBITDA figures, we reached, this second quarter, the level of US\$ 490 million, with ferrous minerals representing 81% of the total EBITDA; logistic, 11.8% and aluminum 5.5%, a very strong performance this second quarter.



The good sales performance could be seen through the volumes we sold, iron ore and pellets, 41.5 million tons, a slight increase compared to the second quarter of 02; gold, a major reduction, reflecting what I just commented, on mainly in Igarapé, Bahia and Fazenda Brasileiro; manganese, we have a extraordinary performance due to the shipments for the first time of manganese ultra fine, Azul mine and Carajás, to our Chinese clients; ferrous alloys, 10.75%, a very good performance as well; alumina, the large figure here reflects the consolidation of Alunorte, that started only in the third quarter of 2002, but also the expansion of Alunorte plant , the alumina refinery, which start-up was last March. As for aluminum, this small reduction reflects much more a seasonal adjustment on shipments; it's not representative in our view and the fact that our Albras plant is working in a very strong trend. Potash, last year we had inventories that we don't have this year; so, we reduced our inventories last year and today, currently in our potash mine we are working at full capacity, that is 600 thousand tons per year and, as I mentioned before, we have no inventories to sell, so that explains the fall in volumes compared to the second quarter 2002. Kaolin, a very good performance as well, reflecting our efforts in developing new markets for our products and very good performance in our logistics business in general cargo with new quarterly records being beaten by our business.

As for our operational performance we can see that, using the adjusted EBIT margin, we are showing a improving performance over time since the first quarter of 02, when we recorded 31.2% as EBIT margin and we reached, in the second quarter of 03, 33.2% EBIT margin, in spite of the sharp appreciation of the Real in the first half of 03.

When we look at our performance compared to our peers, we are also doing extremely well; in fact, yesterday, CVRD reached its record market CAP – capitalization - with a total of US\$ 13.8 billion as market CAP; we, of course, are keeping track of the performance of the ... of the mining's and metals industry as a whole, but maybe we are, somewhat, outperforming some of the major players in this sector. Clearly, on the net earnings, we show a stronger performance than several other competitors in this sector, with a total US\$ 810 million net earnings for the first half of 2003, above Anglo, well above Rio Tinto with US\$ 641 million.

During these last 18 months we have shown a very strong and consistent cash generation and we can see in this slide, using the criterion of the last twelve months adjusted EBITDA, it's a steady growth of our EBITDA figures in this period, although, even if we adjust for the Alunorte effect, we would have an increase of about more than US\$ 300 million in the last twelve months - it's a very important, very



strong performance in terms of EBITDA and showing why the company is having such a good performance in terms of market CAP.

Iron ore and pellets; our shipments were constrained by mining and logistics capacity, as you know, we are working hard on that, we are anticipating some investments, speeding up our investments in the northern system, mainly on the mining, in order to deal with a very strong market demand; in fact, in the first quarter we still had some inventories that we could utilize, but they were no longer available in the first quarter, but also we faced some shipment delays and we are confident that in the second half this should be recovered without any loss in terms of sales.

As for railroad transportation; as I mentioned before, we reached several records in all our operations, but I would like to highlight FCA that showed a performance of 2.6 billion net tons per kilometer in the second quarter of 03, compared to the 2.2 billion net tons per kilometer in the second quarter of 02; this is a fully dedicated general cargo railroad.

Vitória-Minas and Carajás also showed a very strong performance in general cargo, also reaching quarterly records, all time records, in the second quarter of 03.

Our investments are in line with our original forecast, although slightly below the initial figure we thought, but we are investing to expand our capacity in iron ore, mainly with the new mine Brucutu Fábrica Nova, that should be producing in 2005 and 2008, respectively, we would have a shorter term increase in Carajás, with a 14 million in the first quarter of 04 and Gongo Soco and Itabira, 3.5 million tons. This should help us to deal with what we anticipated, continues to be a very strong market for the iron ore, all the projects in bauxite and alumina are being started right now; the Sossego project, copper, we spent about US\$ 120 million in the first half of 03 and it is right on schedule to be operating by the second half of 2004. As for potash, we expect to conclude this investment at the third quarter of 05 and this investment will address very strong demand that we already see in the market, but we are not able to meet to the limit we have in our nominal capacity.

I would like to mention that Aimorés power plant; the start up, the commissioning was postponed to 2004 due to some problems in relocations of the cities where the plant will operate. Candongas is right on schedule for the first quarter of 03.

Another important comment is that we announced last Wednesday an additional payment of US\$ 250 million in dividends to our shareholders, this represents .65 cents per share, in addition to the US\$ 1.04 we announced in January. I would like to stress that when we announced



dividends policy, the new dividends policy and then when we announced the minimum dividend payment, we said that we should look at the performance of the company overtime and see how the cash flow would develop and, if we felt appropriate, we would propose to the board an additional payment and I'm very happy to say that we implemented fully, as announced, the dividend policy and with the additional dividend reflecting what has been, in our view, a very strong performance of the company; so with this payment, this total dividend payment this year will amount to US\$ 650 million, this is well above the level observed in 2002, with US\$ 600 million and with that payment, the dividend per share this year will total US\$ 1.69, that compares very nicely with the average dividend per share in the period 1999 – 2002, that was US\$ 1.57. The average dividend yield in this period, 1999 – 2002, was 7%; so, we are consolidating our reputation as very good dividend payers.

At the same time, we managed to keep a very sound balance sheet, that's very important for us, and our total debt / EBITDA, the ratio that was 2.47x by June 30<sup>th</sup>, 2002, was reduced to 1.74x EBITDA in June 30<sup>th</sup>, 2003. These figures do not include the recent transactions that we implemented, as I'll comment right now, we - actually, for the whole year – we borrowed slightly over US\$ 1 billion, so far, and we think that this level is appropriate for our cash flow and I would like to highlight, too, the last two transactions: one; US\$ 250 million notes - 10 years maturity, securitization of receivables of iron ore and pellets, with a very low yield to maturity, 4.48, duration 5.38 years, a very good operation in our view. It was guaranteed by MBIA Insurance Corporation with a AAA rating, reflecting the quality of our clients. Second, just in the first week of August we issued new note, US\$ 300 million, unsecured note, also 10 years maturity. CVRD was the first Brazilian company to tap the market with a 10 years note, unsecured note; it was also the first private company to issue a bond below the sovereign cost. In other words, we managed to issue our US\$ 300 million dollars bond at 9.25 and the sovereign, at the same time, was traded at 12.60% per year; so, this was a discount, to our reference, the usual reference for Brazilian companies of 3.33% per year. Also this transaction was possible because Moody's gave us three marks above the sovereign rating, and we were rated BA2 and this was very important for the success of the transaction, that had the duration of 6.77 years at launch. We were very happy with this conclusion, because in this very week we issued this bond, markets were extremely volatile and particularly Brazil was penalized by market perceptions and we managed to keep the pricing of our bond at the same level we thought at the beginning of the week and we had an overbooking and we add more investment on the debt side to know CVRD's operations and how CVRD perform.



So, it was very important for us and we also believe that size investors would not only buy bonds but also shares, that's the perception we got of some of the business we made.

So, with those transactions we managed to increase average maturity and duration of our debt at what we would say a relatively low cost - of course, we could improve a little bit further, in the future. Since its launch, the CVRD 2013 is trading though the Brazilian sovereign in a very steady fashion, in some days, the discount to the sovereign reached 400 basis points and just yesterday, it was 320 basis points, approximately.

Finally, turning to the macro economic and business outlook, in terms of the business environment, we think it is starting to improve with the global GDP, although growing at a lower rate in its long-term trend, showing very positive signs, particularly in the US economy, with a stronger than anticipated by the market, stronger figure for the US GDP, with 2.4% growth on a annual basis. Also the impact of SARS on Chinese economy was very limited, in the first half China grew by 8.2% in terms of GDP and we are expecting that at year-end it should reach at least 7% GDP growth, and the effect is that metals prices are already factoring the change in expectations regarding world output.

Global iron ore demand continues to be on a rising trend, that makes our expansion, speeding up our expansion in Carajás very timely and we see no signs of deceleration there and we think that what we could say is this still some imbalance in the iron ore market should remain throughout 2004 - that's our perception as yet and this perception is enhanced by the continuous strength of the cost of freight differential that continues to increase, indicating that the excess of demand remains and there is no sign at all of deceleration, as we can see in the chart, as we put together.

China, of course, is the main driver in this market and here we put some very interesting figures showing the increasing share of imported iron ore in total Chinese consumption coupled with the increase in average FE content, reflecting precisely what we expected in terms of improving the quality of production of the steel industry in China, reflecting the stage of development they are through right now.

We are working hard trying to de-bottleneck our iron ore production, anticipating 2004, the Carajás expansion, that will match the expansion of our Ponta da Madeira port our third pier, that will increase our shipping capacity from 56 to 74 million tons per year, by the first quarter of 04. Carajás expansion should be completed by then, with a total capacity of 70 million tons per year and, as for the southern system, we're expecting for 2004 a net increase of 3 million tons per year,



already considering the extraction depletion of the Capanema mine in southern system.

As for iron ore prospects if we continue with our estimate of a total seaborne trade of 550 million tons for 2003, a net increase of 35 million tons compared to 2002, and as I mentioned before, the current imbalance should remain throughout 2004, as we see it.

In terms of our shipments, we didn't change our expectation we still think that we will show a modest increase in our shipments in 2003, with some acceleration of the shipments in the second half of 2003, compared to the first half. For the long term, our estimate is that seaborne trade will continue to grow in line with the long term GDP would grow, 3.6%.

As for alumina, the prospect continues to be very bright in our view, with consumption growing faster than production; China, again, is a major factor there, spot prices stabilized in a range of US\$ 280 and US\$ 300 per ton, well above what used to be in 2002 and this represents about 20% of the alumina prices, that compares to the 11% of the alumina prices in 2002, observing 2002. So very strong, the market is performing very strong and it should continue in this position over the next 18 months, although the amount additional capacity should reduce the pressure, in our view, the market will continue to be relatively tight, so great and good opportunities for CVRD in its timely expansion of Alunorte.

As for the logistics prospects, as you saw in our release, logistics had a very strong performance, not only in the second quarter, but also in the first quarter of 2003. We are developing new business, we are providing services for the building materials industry, and inter-modal transportation, assuring high growth rates enhanced with the perspective enhanced by the coastal shipping business, we managed to have to show this very strong performance in spite of the delay in the arrival of locomotives and car rails, we bought this year. So, there was implicitly a very strong productivity increase in our logistic business during the first half of the year.

Finally, just some pro-forma information on what would be the consolidation of Caemi, showing the importance of this acquisition for CVRD. Our expectation is that Caemi consolidation will start in the third quarter of 03 and with this consolidation, if we had it since the very start of the year, we would have a total sales of iron ore and pellets of 101.7 million tons of iron ore and pellets, our sale to China would have represented 14.6 million tons; kaolin 537 thousand tons and our adjusted EBITDA would have been US\$1.067 billion, total debt, very



small increase compared to our figures of about 3.3, it would be US\$ 3.6 billion; so, it was a very important acquisition for CVRD, in our view, we are not sure if the market has already priced the full effect of Caemi, waiting for the European commission decision and the closing of the transaction should take place in the next few weeks.

Thank you very much and I will be myself, my colleague, Gabriel Stoliar and Roberto Castelo Branco and team - we are here available for any questions you might have. Thank you very much.

**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 (\*1) on your touch-tone 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.

Again, to pose a question, please press star, one (\*1).

Our first question comes from Mr. Marcelo Kayath with Credit Suisse First Boston

**Mr. Marcelo Kayath:** Hey, Fabio, Roberto, how are you? My question is about slide eleven, where you’re talking about the constraints in iron ore and pellets in the short term. Could you give us some more information about what you expect for the third and fourth quarters in terms of volumes, because I know that you are constraint, but you’re talking about Gongo Soco coming back into full production in the second half of the year, you have taken some emergency measures along the northern and the southern system so, how constraint are you in the second half of the year? Are we likely to see just 36 or 37 million tons of iron ore shipments as you’re showing in slide 11, or can we see maybe a bit more in the second half of the year? And the same thing applies to 2004, that is: are you limited just to the expansion in Carajás or are there other things that you can do to remove other bottlenecks and increase the supply of iron ore in 2004? Thank you.

**Mr. Barbosa:** Thank you, Marcelo, for your question. Well, actually we expect a stronger performance in the second half of the year, we not only we would see more regular shipment, that’s not a problem of demand, I would like to highlight that, but simply the schedule of the shipment was such, that indicated this change, but we are also



bringing-in some new equipments, shovel and drags, to speed up the process in the northern system mainly, but also in the southern system, in the first half of the year – do you recall you mentioned it? We had this Gongo Soco problem that was addressed and Gongo Soco now has resumed full operation so, you should expect more from that; in the first half of the year we also had the rainfall, that affected and interrupted Vitória Minas for two days, affecting logistics and mining, and we should not have this repeated, given, the regular weather in Brazil so, altogether, we should expect a stronger performance in terms of volume in the second half.

**Mr. Kayath:** Fabio, when you say stronger volumes, are you talking about additional availability of, you know, a million or two or that is, going up to 37, 38 million tons of iron ore shipments or are we talking about something more like 40 million tons?

**Mr. Barbosa:** I would say that, for the year as a whole, we could expect an increase over 2002 of about 3%.

**Mr. Kayath:** That's for iron ore plus pellets?

**Mr. Barbosa:** Yes, iron ore and pellets, yes.

**Mr. Kayath:** How about 2004, Fabio, can you give us a hint if there are other things that CVRD can do besides the 3 million tons in the southern system and the 15 million tons in Carajás?

**Mr. Barbosa:** We actually are, those are 14 million tons in Carajás and 3 million tons in the southern system and that's what we are planning for 2004; so, roughly, we should have additional 13 million tons compared to the level we are going to observe in 2003.

**Mr. Kayath:** Fabio, as a second question, last question, is that with volumes increasing, at some point you're going to have an expansion of margin, especially because you already incurred into the expenses to generate this additional volume and we have not seen the expansion of margins yet; in the third quarter you have an artificial impact of the price increase, the invoices will be adjusted, but going forward, on a more forward basis, to fourth quarter 2004, when should we expect to see the kind of expansion on margins that we are hoping for, given your expansion of volumes in the second half of the year and also in 2004? Is it really a 2004 story in terms of margins, or could we expect something in the fourth quarter, already on a more sustainable basis?



**Mr. Barbosa:** Marcelo, I have a different view, I think that as you know the company has a profile of revenues and expenditures in which its very much affected by the fluctuation of the exchange rate or, in the case we saw in this first half, the appreciation of the Real against the US Dollar; we had some specific additional costs, such as fuel and others, but, overall, I think that, on the long term, we are implementing, as we tried to put together in this press release, several cost reduction measures that you cannot precisely measure right now, but you are starting to see some results in our information; but in terms of the operations, if you take out the Alunorte effect, that was consolidated for the first time US Gaap in the third quarter, you see that we have, actually, a reduction in our cost of production, and compared to the cost of 2003, in spite of the appreciation of the Real, we had an improvement in our EBITDA margin; so, our new projects, as you mentioned, they are very cost- effective and we think that this should basically consolidate a good performance, in our mind and we don't see, at all not performing as our average expectations.

**Mr. Kayath:** That's good, that's helpful. Thanks a lot.

**Mr. Barbosa:** Thank you, Marcelo.

**Operator:** Our next question comes from Ms. Katie Blacklock with Thames Capital.

**Ms Katie Blacklock:** Hello. I've just a question on the expansion on the iron ore side; previously you said that you would expect third party purchases to peak, at around 12 million metric tons. Now that you're accelerating the expansion at Carajás, can we expect third party purchases to be lower than that in 2004?

**Mr. Barbosa:** I would not guarantee that as now, because we bought this first half, 5.1 million tons of third parties iron ore and this figure should be repeated in the second half of the year and as the market continues to show very strong performance, we may have to continue to buy third parties iron ore and even increase it, depending on market performance. The good thing of that, is that we have some flexibility in adjusting for any major change of the market conditions that we are not anticipating by reducing acquisitions in the future, but, actually, this is not what we are forecasting right now, so we should keep buying during the second half and also in 2004 to deal with market demands.

**Ms. Katie Blacklock:** So, as things stand, given the expansion that



you're expecting for 2004 and the market that you're anticipating for 2004, would you still expect around the 12 million metric tons of purchased iron ore, as for 2004?

**Mr. Barbosa:** That's correct.

**Ms Katie Blacklock:** OK. And just one more question, which is: regarding the price increase in pellets in the second quarter, looking at the ore revenue per ton, it looks as though there was some price increase that went through in the second quarter; I do understand that most of that will come through in the third quarter; but, on the pellet side, prices look as though they stayed flat, it's around US\$ 30 to US\$ 31 in the first quarter and the second quarter. Can you give me any reason for that differentiation between the ore and the pellets?

**Mr. Barbosa:** Well, thank you. In the case of pellets, the price adjustment was agreed upon a few weeks later than in the case of iron ore; if I'm not mistaken, two or three weeks later; so, there's no price effect yet in our information in the press release. I would like to comment and I will use your question for that, that of the total price increase, that we agreed with our clients, out of a total of about US\$ 70 million effect in the first half of the year we accounted for only US\$ 25 million; so, due to delays in agreements, in contract with our clients so, it should be seen only in the third and fourth quarter of 2003.

**Ms. Blacklock:** OK, thank you.

**Operator:** Ladies and gentlemen, as a reminder, please limit your questions to two at a time.

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

**Mr. Paolo de Sora:** Good morning. I have a question still related with the pellets performance. The number of pellets, the volume of pellets disappointed me in the second quarter. I would like to understand what's happening with your pellets operation; is the market demanding less pellets, or which kind of growth on - specific on pellets, should we expect in the second half of the year? And the second question is that you are projecting additional 17 million tons for the next year, which gives an increase of roughly 10% in your volumes in your capacity; are you expecting to sell the full 17 million tons already in 2004?



**Mr. Barbosa:** Thank you, Paolo, for your question. As for the pellets, this is basically shipment schedule and it doesn't reflect the tightness of the market. There is no sign of any sign of problem of demand, or lack of demand, to the very contrary, because the demand continues to be well above our capacity to deal with that; so, it should be adjusted or regularized during the second half of the year. As for the second question, on the 17 million tons increase, actually is what we are anticipating as a what we could provide to the market; actually, the market is as it is performing right now, it's showing much more room than what we have been able to provide in terms of supply. Our competitors are working towards expansions, additional expansions of capacity and we think that the level of 17 million is appropriate to the level for the level we anticipate of demand for demand in 2004.

**Mr. Castello Branco:** I would like to add that this year, the Chinese demands are so strong that they are recurring to non-usual suppliers, marginal suppliers located in Canada, in Sweden, countries like Uzbekistan, Kazakhstan, Chile and Peru; so, there is room for growth not only because we expect the Chinese demand to continue to grow in 2004, but also replacing these marginal suppliers.

**Mr. de Sora:** That's very helpful, thank you.

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

**Mr. Daniel Altman:** Hi, it's Daniel from Bear Stearns. Can you hear me OK?

**Mr. Altman:** I just had a few questions and I missed the last ones so I apologize if there's any repetition; but I noticed that in both of your comments on the iron ore sector and also the alumina sector, you gave guidance through the end of 2004, or roughly 18 months; I'm wondering if that's because that's kind of as far as you want to stick your neck out, here, which is totally reasonable, or if you see something in 2005, that makes you think that by 2005 we may see a reversal of the supply / demand trends, in both iron ore and in alumina?

**Mr. Barbosa:** Well, Daniel, thank you for your question. No, it's not some, let's say, undue adjustment, it's simply a state in what we see more likely to happen in 2004 and, as you know, we are a very conservative company in all aspects. So, we studied the market, we saw estimates made by several analysts of the market and what we mention in our presentation is what we feel that would be the average of our views and the specialists' view on the future developments of the market and we feel comfortable with that.



As for 2005, we already have, in the past, indicated that in the case of alumina, for instance in the aluminum business, we should have a more balanced market by 2005, with a reduction in the inventories of the aluminum and a reduction in the imbalance of the alumina market, as for 2005 onwards; that continues to be very much what we think could happen in the future, but China, as we commented during the presentation, continues to be a very nice disturbing factor in this trend. It works for all the metals in general and in particular, in our case, in terms of iron ore, in the aluminum, aluminum market and just in the second quarter we had a first shipment of ultra fine manganese; so, as we stop, our guidance in 2004 is not because we are expecting, anticipating a reversal, but it's the timing we feel more comfortable to comment on.

**Mr. Altman:** OK, thanks, just one other question on Caemi, very strong volumes they've been recording; I'm wondering if you think that those numbers are sustainable, what do you think is a fair annualized volume contribution from Caemi, say in 2004.

**Mr. Barbosa:** Daniel, Caemi has shown a very strong performance this first half of the year and it should continue in the same way in the second half, or even generate, or to show a stronger performance in terms of sales and it could reach about 36 million tons by year-end; so, a very strong performance and with the maturing of the investments they've made in the last few years.

**Mr. Altman:** OK, thanks again very much.

**Mr. Barbosa:** Thank you.

**Operator:** Our last question comes from Ms. Katie Blacklock with Thames Capital.

**Ms. Blacklock:** Hello, I'm sorry to bother you again. I just have a question on the cash flow statement. First of all, could you give me some more guidance towards the guarantees in deposits refer to and also the loans and advances receivable; can you also give some guidance as to how we will see the Caemi purchase reflected in the cash flow statement? I understand that the results will be consolidated until the third quarter, but has the payment not already been made?

**Mr. Barbosa:** Kate, thank you very much, could you repeat the first question, please?



**Ms. Blacklock:** Yes, the first question was just referring to two categories in the cash flow statement and I don't understand what they refer to: the first is loans and advances receivable and the second is guarantees and deposits. I just wondered if these items had something to do with your affiliate companies the reason it takes my attention is because it has moved some US\$ 12 million in the first quarter, 252 million in the second quarter, from the guarantees and deposits.

**Mr. Barbosa:** OK. Thank you very much. Let's start with Caemi. The closing of Caemi should happen the next few weeks and it should consolidated it in our US Gaap figures from the third quarter onwards, although we should not consolidate it from the very start of the quarter, because the transaction was not yet concluded.

**Ms. Blacklock:** And the actual payment will be reflected in the cash flow in the third quarter as well.

**Mr. Barbosa:** In the third quarter, for sure. I'm seeing here the figures you mentioned on the cash flow – loan and guarantees and deposit.

**Ms. Blacklock:** It's under the cash flow.

**Mr. Barbosa:** Guarantees and deposits, it has to do with the income tax deposits we did to guarantee, we are contesting a position of the internal revenues service and regarding some tax payments, but according to the Brazilian law you have to make a preemptive payment, a deposit, that continues to belong to us, but it is a judicial court deposit that will be blocked by the authorities until we settle the issue with the IRS or the court; so, in the second quarter, there was a deposit of around US\$ 100 million for this purpose.

**Ms. Blacklock:** OK and the dispute with the IRS is regarding to something very detailed.

**Mr. Barbosa:** It refers to a recent understanding for the IRS that we should not deduct more than 30% of previous years losses we had in our balance sheet, instead of the 100% deduction we were allowed until a few months ago; that's in relation with that and they have a very strong case, I must be frank with you.

**Ms. Blacklock:** OK.

**Mr. Barbosa:** Thank you.



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**Ms. Blacklock:** Great. Thank you very much.

**Mr. Barbosa:** Thank you, Katie.

**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 again to thank you all for attending this conference and would like to highlight how we appreciate the way you have been following our company and analyzing our company and we'll keep will be available for any further questions you may have.

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

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