



Transcrição da Teleconferência Resultados do Segundo Trimestre de 2004 13 de agosto de 2004

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

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

Mr. Thomas Karsten: Good afternoon ladies and gentlemen and welcome to the CVRD conference call to discuss the Second Quarter 2004 results.

I would like to mention that a slide presentation has also been made available on the company's website at www.cvrd.com.br

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

With us today is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First Mr. Barbosa will comment on the Second Quarter 2004 results and afterwards Management will be available for a question and answer session.

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

Mr. Fabio Barbosa: Thank you very much. Good afternoon ladies and gentlemen and thank you for joining us today in this conference for the second quarter results. We are of course very happy with the results we managed to show you. The results show discipline in capital spending, strategy that is consistent and focused on mining and productivity gains across the board of companies operations. We showed you a much stronger group; CVRD today is a different group of what it was just a few years ago. In our agenda in this presentation we will comment with more detail the second quarter results, then we'll comment on our business' outlook as we see and finally a statement on our gross strategy and value creation opportunities.

Starting with the second quarter results, of course, one has to point out the very strong top line growth, 66.8% on a year over year basis, mostly driven by volumes, so this ... responding volumes for about two thirds of the total increase in sales, sales growth; of course, we have some effect of the consolidation of several companies, that is why I mentioned that we had a

different and stronger group in 2004, but also there is the effect of the organic growth opportunities that we managed to implement in the last few years that are resulting in further increase in our production and sales: iron ore and pellets 33% and 44% respectively, very strong position; ferrous-alloys 33%; aluminum and kaolin, helped by the consolidation, we managed to achieve right now in Albras and previously with CAEMI, so a very strong performance in all our lines of businesses.

Sales revenue by product showing that the ferrous division is still a very important part of our business, but in a growing importance of our segments iron ore and pellets responded for 61% and if we add manganese and ferrous-alloys will be almost 70% of our gross revenues that reached US\$ 2.03 billion in the second quarter, so ferrous division responded for 70% of this total; aluminum chain 14.2% and logistics with almost 11%. I'll call your attention for the copper, for the first time appearing in these statistics, just a small volume shipped in the second quarter of 04 and it's already responded for 1.2% of the total sales.

In terms of global, of geographic distribution we continue to have a broad presence in the global arena and Europe is our most important market as a region, almost 35% followed by Asia and China and Japan are the most important countries to whom we sell right now and China, in Asia; America 6.5% and Brazil 28.5% out of these total revenues of US\$ 2,033 billion.

A new record was reached in iron ore and pellet sales; almost 56 million tons in the second quarter of 04, that compares very nicely with the second quarter of 03 and even with the first quarter of 04; it's a very strong performance, pellet sales reached 7.5 million tons, also a record and our iron ore sales 48.4, slightly below our record figure of the fourth quarter of 03.

In logistics, general cargo transportation, also a new record was achieved, with 7.6 billion net tons per kilometer, that compare with the second quarter of 03 very nicely, when we reached 6.9 billion net ton per kilometer, so a steady growth of our general cargo business provided by the new equipment we are buying, the rolling-stock, rail cars and locomotives that we managed to bring to provide services, logistic services in Brazil, there is a major bottleneck today for Brazilian growth, but we are growing faster than the Brazilian economy.

In terms of EBIT margin a new record as well, we reached US\$ 832 million and the EBIT margin reached 43.3%; it's a remarkable figure considering the effort we are all putting together to reach record figures for our business in terms of volumes, in terms of production, we are stretching to the limit our capacity in all segments of operation. Our EBIT margins improved, of course, due to the very important, very strong market, so prices were up but volumes were also up and responded for about 600 basis points of the total increase we saw in the second quarter of 04.

I would like to call your attention for the fact that even with this very strong volumes performance, costs were very much under control, so that provided us with these very nice results in terms of margins; in fact, we are able to show you today a consistent, across-the-board operational excellence measured by EBIT as you see in the next slide, on the ferrous minerals, logistics and aluminum businesses; so, in the ferrous minerals, in the second quarter with the price increase and economies of scale we were able to reach almost 46%; logistics, 28%, from 22% in 2003; in the aluminum business, 47.5%.

With this very strong operational performance we delivered very nice earnings figure for this first half of 2004 and our accumulated figure reached US\$ 909 million, that compares with the other players in this market - we were the third largest net earning figure and we were the fourth in terms of market cap as of June 30th, 2004, so a much better relative performance as well.

In terms of EBITDA, for the ninth consecutive quarter we showed a new record: US\$ 971 million was the EBITDA figure for the second quarter of 04; of course, we were helped by the consolidation of Albras and compared to the last year CAEMI and FCA, but, again, we did have a very strong performance of, let's call, the old company as it was in 2003 and 2002 and the result was that in the last 12 months our EBITDA figure reached almost US\$ 3 billion and we still have a lot more to come mainly from the copper, given the fact that only 34 thousand tons of copper concentrate were recorded in the second quarter of 04. In terms of EBITDA by business area, ferrous minerals, almost 70% of the total EBITDA generated this quarter and I would like to highlight the aluminum contribution, now incorporating the contribution of Albras fully, reaching almost 17%; logistics 10% of the total EBITDA.

In terms of our Capex spending, we spent US\$ 846 million in the first half of 04, very much in line with the expected figure of US\$ 1.8 billion for this year, we spent US\$ 560 million in growth Capex and US\$ 286 million in the staying business Capex. We delivered Sossego, Carajás 70 million is a reality and Candonga is ready, is just waiting for the official approvals to operate, the reservoir is being fulfilled and it will be operating very soon, as expected; at the same time we are implementing a very broad investment program, we are able to keep even more sound balance sheet as you see in the next line; the total debt EBITDA, the ratio total debt/EBITDA declined further in the second quarter of 04 and reached an all-time low 1.5x; at the same time last 12 months EBITDA in terms of interest coverage reached almost 13x, so it shows market participants the strength of our balance sheet and if you go to the next slide you also see that there was a major change in quality of our indebtedness with the market, in fact our floating interest rate debt was reduced from 71% to about 53% by the end of the second quarter; at the same time we were able to increase average debt life to about 6.4 years, so it's a company with much lower financial risk that we are able to present to you today, at the same time we are implementing a very sound investment program.

In terms of business outlooks, how we see the market ahead of us, we ... the word to describe the market is tight; we believe that the tightness of the market will remain, the global economy should continue to grow, despite energy price increases we are observing several markets, but the bottom line is that several indicators confirm our expectations that the world economy will show a very strong performance this year, as we can see in the global PMI, as we see the figures for industrial production growth to the US that in our view remains very robust and should deliver a very strong growth for the US economy this year. I would also like to call your attention to the performance of the Japanese economy, that seems to be in a very different path of what it used to be in the last 15 years, showing a very strong performance helped by the world environment, but also in part by the performance of the Chinese economy. In our view, in terms of the Chinese economy, we believe that if there is a landing it will be soft and what we are observing right now it's a very modest slow-down in the industrial production and steel production grew by 21% the first half of the year and we believe that the Chinese economy ... we keep our expectation of a GDP growth close to 8% this year for the Chinese economy, Chinese GDP.



In terms of aluminum prices they are still lagging behind, compared to copper and steel prices, showing some room for further increase; in terms of iron ore the Chinese ... the sea-born trade and the Chinese imports, and you see in the next slide what we anticipated to you in the last conference is happening. We said that the Chinese measures they would have a negative impact, only in the more speculative-like demand, and that's what happened. In our own portfolio of clients there was no change downward, to the very contrary, what we had and what we saw was additional request for iron ore in order to feed the industry, the steel industry there in China. So we continue to believe in a very strong performance, the Chinese imports could reach 180 million tons for 2004 that the sea-born trade should reach 575 million tons. The first half Chinese imports were about 97 million tons, but part of those imports were the more speculative type and more the spot market, so we believe that things will grow more normally in the second half of 2004. In terms of alumina, world alumina demand, it rose 7.3% last year to 54.4 million tons; we are very well positioned given our pipeline of projects with the expansion of Alunorte and Paragominas and we expect that the consumption, the world consumption could reach about 70 million tons by 2008 and by the very time we'll have more 3.6 million tons of alumina provided by our investments, I just mentioned Alunorte stage 4 and 5 and ABC, it's 1.8 million tons for each investment, they are scheduled to be ready the first half of 06 and 07 respectively and they will be fed by the Paragominas mine now extended to 9 million tons and should be operating also by 2006.

In terms of copper, given the very strong market we are observing an increase in the CRC charges... prices, however there is a lag until it is translated in cost of our copper concentrate produces like us but what we see in the copper market as a whole is a very strong performance in terms of prices and inventories are in a very low level, indicating that the market should remain very tight for a long time.

Finally, now in terms of our growth strategy, we would like to show again a chart, as we have been showing to you for some time now, stating how we see the different ... several paths to profitable growth, to generate shareholder value. In fact we believe that CVRD is in the right track because it is maximizing our asset performance with consecutive production records, as you saw there, you just saw; we have a global multi-type commodity mineral exploration program and we are trying to find new opportunities for organic growth, focusing on finding giant deposits that would be more in line with the scale we operate; we are implementing the very rich pipeline of green field and brown field projects, that you all know, and adding new projects as we are able to discuss with other parties and we are constantly monitoring opportunities around the globe for joint ventures and acquisitions of projects and companies and we believe that we have a very good reputation in this regard, we have been a consistent value adder to our shareholders, returns on invested capital of around 30% and we continue... We remain very committed, very strongly committed to generate shareholders, value to our shareholders. Our projects are assessed according to our strategic guidelines, with the focus on mining business with associated businesses of logistics and using energy investments as a tool to reduce costs in the long term. We try to evaluate all risks, all the relevant risks regarding our investments – market, regulatory, labor, tax, environmental, legal and we put together a structure to do this job in our corporation and all our projects they have to satisfy minimum criteria for cash flow at risk and shareholder value creation, so the results that we are seeing are the result of discipline, focus, consistence in implementing the strategy our shareholders approve.

Thank you very much and myself and my colleagues will be available for any questions you may have.

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 key and then the number 2 key.

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

Operator: Our first question comes from Rodrigo Bauers of Banco Pactual.

Mr. Rodrigo Bauers: Good afternoon, Fabio. Congratulations on the outstanding results. I have two questions; first, of course, it's too early to discuss, I don't know, prices for 2005, but I wonder if you could give us a framework to reason that saying what could be the factors contributing to a favorable price increase and what could be the risk for a not so favorable price increase and my second question regards MRS and FCA regarding the third rail that FA could put in MRS and how these discussions are proceeding?

Mr. Barbosa: OK, thank you for your questions. First on prices, what we have been observing is that the world economy is growing very strongly as we tried to show, the scarcity remains, the market is very tight, our clients continue to ask for more ore and we are having to say no, we are having... we are trying to organize the queue, in other words, because we don't have, we simply don't have enough ore to deliver this year or the next year of the following three or four years, in spite of our expansions; so we believe that our competitors are in the same position and even with this more disciplined market in China we believe that the tightness of the market could remain; the world economy should continue to show a very benign environment, all the aspects are very positive there; we don't believe in a crash scenario in the central economies, in the US or in Europe, due to the oil prices, we believe that energy prices increase are due to a structural change in the world arena given the strong performance of the Chinese, the strong demand of the Chinese and also problems faced by the Russian producers, so we believe that maybe some very slight reduction here and there of growth rate but there should be a positive growth rate for the world economy as a whole and this is a favorable scenario to discuss prices with our clients, but is still too early to say what would happen from November onwards. On the MRS issue we... what we will discuss with MRS shareholders and directors is the possibility of adding a new logistic facility and enhance FCA capabilities of providing logistics service to our clients through tracking rights for FCA and in this regard we have to adapt the railway and to build the third rail. It is a very simple operation in terms of investment, a very small investment but that could open a new channel to deliver to the Sepetiba port that could help us to enhance our general cargo production, but we are still discussing with the relevant parties there.

Mr. Bauers: OK Fabio, just to make sure this is going to be a proposal that Vale is going to make to MRS and is up to MRS to decide whether or not to pursue it?

Mr. Barbosa: This is a proposal that FCA will present to MRS, OK?

Mr. Bauers: OK, thank you very much.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Bauers. The next question that we have comes from Alberto Arias of Goldman Sachs.

Mr. Alberto Arias: Yes, good afternoon Fabio, congratulations on the good results. And a couple of questions; you mentioned in your presentation the strength of the results and potential acquisitions as a way of growing the company; how much consideration is the company giving a share buyback program as an alternative to an international acquisition given the great potential that CVRD has and it's quality relative to what is available out there? Is the company considering increasing a share buyback? What is the share buyback policy of CVRD at this time?

Mr. Barbosa: Well, we are not considering any share buyback ... share buyback program. We have a very strong investment pipeline and we'll like to keep our balance sheet in a very sound position and in this regard we, of course, we know that CVRD is one of the best investments available there but so far we don't have any buyback program designed to be implemented soon.

Mr. Arias: Because I think it will be probably the best acquisition opportunities buying your own shares - that is my personal ... view. The second question is with regard to the high oil prices and the impact that it would have in different parts of the company. We saw the strength of the railroad division in the second quarter as an important positive surprise. What is the impact of high oil prices on some of the margins that we see out of your railroad business and if you could expand that to perhaps other parts of the company, how exposed CVRD is of potentially expansion of the high oil price environment?

Mr. Barbosa: Well, Alberto it all depends on how what would be Petrobrás policy regarding this price increase and it cannot be immediately translated into our cost because Petrobrás has a different policy; it's interesting that we studied the possibility of trying to hedge a little bit our exposure to this risk but Petrobrás policies regarding prices are not matched by any instrument in the market, so it will all depend on what Petrobrás will do and we can do very little to reduce our exposure there. But on the other side the Brazilian economy is showing a very good performance and inflation is under control, a little bit pressured by public utility prices and maybe Petrobrás would wait a little bit until it decides to pass through the price increase; this is one issue. The second is that Petrobrás prices, I believe, for what we've seen, their own costs are not immediately affected by the oil prices abroad because this is much more a reference for their pricing policy rather than a cost issue, so we have to consider what Petrobrás will be doing in the future and meanwhile continue to do what we have been doing in terms of increasing the efficiency of our locomotives, trying to improve its efficiency and to deal with this potential cost increase.

Mr. Roberto Castelo Branco: I would like to highlight that although fuel costs are important cost component of the railroads, for the company as a whole, fuel costs represent only 11% of the costs of goods sold.

Mr. Arias: Thank you Roberto, thank you Fabio.

Mr. Barbosa: Thank you, Alberto.

Operator: Thank you, Mr. Arias, for your question and as a quick reminder to all participants, we please ask that you limit yourself to two questions at a time. Again, please, limit yourself to your primary question and then a secondary question and this is in fairness to all participants. And the next participant that does have a question is Andrea Weinberg of Merrill Lynch.

Ms. Andrea Weinberg: Hi Fabio, Roberto, good morning, congratulations again for the results. First question, significant increase in the gross margins in the second quarter to 53%; do you think that the lower cost in the quarter reflects economies of scale from your expansions and do you think that this reduction should be maintained going forward, that means that what portion of the lower cost you expect to be recurrent going forward?

Mr. Barbosa: OK, well thank you for your question Andrea, this is ... actually, we believe that several factors should continue to prevail in the next few months; first we have the effect of the alumina in the consolidation of Albras in the aluminum costs, that's something that is there for good. Second, economies of scale were a reality in fact; we were able to expand our production, aggregate more volumes to our sales and the costs were very much in line with marginal increase, if any; thirdly I would mention the increase in efficiency and reduction in fuel consumption of our railroads as I mentioned before, that is also is in our view a structural trend; fourthly, Albras; we used to buy aluminum, primary aluminum from Albras, it used to be bought by Itaco and to be resold in the market and we bought from Albras at market prices; that will no longer happen with the consolidation of Albras, these costs would not be relevant anymore because they are two companies that are consolidated in US GAAP, so I believe there are structural factors behind this cost performance, but of course, as in the previous question I mentioned there are risks to ... like what Petrobrás is going to do with the fuel cost but what is mitigated by what Roberto just mentioned in terms of the relative importance of fuel in our total costs.

Ms. Weinberg: OK, my second question will be on pellets; the pellet sales volumes increased 22% quarter over quarter; I would like to have some guidance in terms of total pellets for this year and what are your expansion plans for pellets going forward?

Mr. Barbosa: Well, pellets is the result of the full operation of our São Luis plant mainly; we are operating at full capacity – slightly above it in São Luis plant and the first half of 03 it didn't happen, so it's mostly this combination, very strong performance this year with a very low production in the first half of 03 and our expansion plans involve further increase in production in our Tubarão plant, we are studying the possibilities of marginal increases... increasing operational efficiency of several of our plants and we are studying a second unit of pelletized... a pelletizing plant in Minas Gerais near Fabrica 1, is the current... the previous Ferteco plant there, but we ... of course could, if the market is there and you know the pellet market is much

more volatile than the refined market, but if the market is there we could of course go further and expand capacity even in the Northern system and the Southern system.

Mr. Castelo Branco: Long term basis, on a long term basis there is some demand factors that will stimulate expansions in pellet capacity; we are seeing new project of mini mills using GR in the Caribbean, in the Middle East and secondly there is new regulations on environmental protection that makes the use of pellets much more ... much more appropriate than iron ore.

Ms. Weinberg: Thank you.

Mr. Barbosa: Thank you, Andrea.

Operator: OK, we thank you for your question, Ms. Weinberg. The next question we have comes from Andres Perez of Morgan Stanley.

Mr. Andres Perez: Hi Fabio, hi Roberto. Just two quick questions; one on your logistics division, if you can give us a sense of the growth that we saw in the quarter how much do you attribute this to your overall growth and market demand versus, you know, how much market share you're gaining given the expansions you have in place ... you know, in the logistics division your estimate is you can grow above the incremental market demand by how much for the next couple of years?

Mr. Barbosa: Well, in total we are able to add 2,500 new rail cars in the first half; about one third of it of iron ore, the major part to general cargo; in locomotives we are able to bring almost 40 new locomotives to our operations. The problem is not demand; we are facing a clear supply constraint there; every single rail car we are able to bring to our railroads, they will be ... the rail cargo will be busy transporting steel products, agriculture products, soy beans, etc. There is no idle capacity there and the only problem is to get the rolling stock in place in order to produce, to generate services and this situation should remain for the whole year and the only constraint would be the timing of the incorporation of the rolling stock and this situation should remain for the next couple of years, we believe.

Mr. Perez: OK, great. My second question is more from a strategic point of view. It seems quite clear that you're obtaining your very high margins from most of your divisions, you know, iron ore, copper, alumina, etc. If you were to look at, you know, investing in incremental expansions, what are some of the factors you'd consider, you know, in addition to just to the returns, you know, what kind of a value do you place on diversification of your product mix, how does this factor into your overall calculation?

Mr. Barbosa: This is very important because we must be able to diversify, because we have already a very strong position in the iron ore market and the sea-born trade, so we believe that in iron ore business the long term should grow in line with the sea-born trade and we are trying ... will try to keep our market share there, in which we are the leaders; so at the same time we have several opportunities, growth opportunities mainly in our Carajás region that are there, the infrastructure is already there, so the Capex cost is much lower than any other alternative; it's very hard to think of the Sossego project by itself if we didn't have all the infrastructure we already have in Carajás; it would be very hard to implement, that's why the Sossego project was so effective and the Capex cost was so low compared to other projects in the industry; so,

the opportunities are there, the deposits are there and, as we showed with the Sossego project, we are able to deliver very good results in the non-ferrous area, that's one example; the other example is the aluminum chain - we have 2 billion tons of reserves in the Paragominas district and altogether all our reserves amount to about 2.7 billion tons; we are very efficient operators in the bauxite mines and also in the aluminum refinery we are able to build very competitive plants there, so diversification just makes sense considering all the positive factors that we were able to build over the last few decades.

Mr. Perez: So, would it be fair to say that for the incremental dollars investment you may give a slight priority to copper on one of your areas?

Mr. Barbosa: No, we give a very strong priority to iron ore; the issue there is that investment in iron ore is very ... is much smaller compared to any other project; a copper project like Sossego to produce 140 thousand tons per year in average, we spent US\$ 413 million and a project like Carajás we have US\$ 10 per ton; an average of all our projects in the Northern system and the Southern system is below US\$ 10 per ton in terms of expansion and we are expanding 73 to 75 million tons until the end of the decade. So it's a matter of market performance, is a matter of allocation of capital and we are ... in this sense there is no trade off, CVRD is able to generate enough cash flow to deal with all the investment opportunities it has at its disposal.

Mr. Perez: OK, great, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Perez and again as a reminder we please ask that you limit yourself to two questions, again, please limit yourself to your primary question and a secondary question. And the next question we have comes from Talia O'Hare, of Schroeders.

Ms. Talia O'Hare: Hi, is Talia from Schroeders; I have two questions, the first one the cost control of the margin expansion we saw in this second quarter; how much would you say is related to the depreciation of the Reais of 6.8% in the quarter and my second question is you mentioned that TC and RC costs were going up, so what kind of prices are you getting for your concentrate today?

Mr. Barbosa: Well, first, on your first question, we, in terms of ... as you know our cost structure, about 30% of our costs are dollar-denominated, so we benefit from the depreciation of the Real but it was ... the depreciation of the Real it was much more concentrated, I believe, in the third month, in June, so of course it helped, but I believe that the other aspects I mentioned – the issue of the alumina, the economies of scale, you see the volumes we added there, the slight reduction in fuel consumption and the issue of Albras no longer... Itaco no longer buying aluminum there – so I believe that it helped and this is... as you know Brazil has a floating exchange rate regime and this is something that could change in the future, given our cost structure and given the very strong performance of the trade balance there. In terms of the TC RC charges, they are negotiated once a year, what we are not factoring yet this potential increase in our costs and we'll negotiate before the next year facing this reality, the market is very tight, there is no longer too much idle capacity in the smelting business, so we should see some cost increase for the following years but nothing that would penalize

aggressively, I would say, our margin in the copper business, given the very strong performance we are expecting for the copper prices in the next few months and the couple of years; the prices we are getting is the price referred to the LME prices so ...

Ms. O'Hare: Sorry, what you're getting is like 15 cents and when is the next price negotiation?

Mr. Barbosa: It will be effective next year and we'll start negotiating by the end of this year.

Ms. O'Hare: And now it's 15 cents?

Mr. Barbosa: Slightly lower than that.

Ms. O'Hare: OK, thank you.

Mr. Barbosa: Thank you.

Operator: OK, Mr. Barbosa, so are you ready for the next question, sir?

Mr. Barbosa: Yes.

Operator: And we thank you for your question, Ms. O'Hare and the next question we have comes from Jorge Beristain of Deutsche Ixe.

Mr. Jorge Beristain: Hi, Fabio and Roberto. It's a problem that's good to happen right now some clients are wondering, given your excess cash flow in coming quarters, which is becoming apparent, what you're planning on doing with this? My question is would CVRD contemplate the payment of an extraordinary dividend on top of what's already been forecasted for the full year? That's my first question and secondly is there any update on the potential divestiture of QCM?

Mr. Barbosa: OK, thank you, Jorge. On the dividend, as you know, our policy establishes a minimum payment, which we announced in January, and that was US\$ 550 million and depending on the performance we can pay more, but so far our executive board and our board of directors have not decided any change of that, of that figure of US\$ 550 million and if and when the board decides that, we'll of course announce to the market; but the bottom line is that the company has had a very strong performance and that will be certainly analyzed by our directors. On the divestiture of QCM we don't have any news on the air, we believe that we are doing our best in order to comply with the European commission requirements and we also believe that they know that and they appreciate that and we are comfortable there and it's just a matter of finding the right way out. So we have not been approached by the European commission in this issue and we are just showing them our commitment to comply with their requirements.

Mr. Beristain: Can I just follow up and try to understand what is the difficulty in finding a buyer for an iron ore producer in the current market environment?

Mr. Barbosa: You tell me! The asset is there and we'll be happy to consider any alternative, but I don't know, I don't know.

Mr. Beristain: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Beristain. As a reminder we please ask that you limit yourself to one primary question and a follow-up question.

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

Mr. Daniel Altman: Hi, congratulations on the quarter. Two questions, one is, can you give us how much additional iron ore capacity you'll have for the entire 2005 and also for the entire 2006? I have a fair idea of what the new capacity will be, but can you give us incremental capacity for the entire year, for 05 and 06? Second question is relating to Noranda; I think it is pretty clear after this result that the market, despite the extraordinary result, that the market is still assigning, rightly or wrongly, some sort of a discount because of Noranda; I just wonder if the company has any strategy to deal with that, such as putting out a press release saying that there will not be a bid or CVRD is not interested in this company.

Mr. Barbosa: OK, thank you for your question. Let's start with the first on the additional iron ore capacity. We are forecasting for this year a production of around – in US GAAP basis – of around 200/202 million tons and next year we should add Fábrica Nova, that should be operating at 10 million tons capacity; in 2006 we have Brucutú and Itabira, with 12 million tons in Brucutú and 3 million tons in Itabira; we also have our expansions in the Northern system with 5 million tons, so that's very much it; Fábrica Nova could reach, by 2007, 15 million tons, so that's about it and also, sorry, I forgot Fazendão; Fazendão with 40 million tons by 2006 as well.

Mr. Altman: When you say that by 2006, like January 2006 or ...

Mr. Barbosa: Hopefully, hopefully. As for your second question, we don't have any additional comment on this issue and, of course, when we find appropriate – if and when necessary – we will certainly issue a press release on any concerns the market may have regarding a given asset, but I don't have any additional comment on that, as yet.

Mr. Altman: I thought I'd try. Thanks.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Altman and the next question we have comes from Rafael Biderman of BDVA.

Mr. Rafael Biderman: Good afternoon Fabio, congratulations for the result. My first question is regarding ... there are some news here today about you studying a project of nickel in Piauí and of a steel mill in Mato Grosso and I just would like to get more details, I mean, how much advanced is this project and also going back to Noranda I understand that you cannot talk about it as a strategic, but as it is extremely relevant for the stock performance, one of the most important issues and as Noranda has not given... they said in their conference call that

they are still analyzing the proposals; can you just say if, I mean, can you just say CVRD is not ... there was a news that ... Min Metals made an offer higher than CVRD and therefore CVRD would be out of the race? I mean, is it official that CVRD is out of the race? I mean, on Noranda or can you mention anything like that?

Mr. Barbosa: OK, thank you for your questions, Rafael. On the projects you mentioned and I commented yesterday, the nickel project is part of our mineral exploration effort in the region of São João do Piauí. There is a potential deposit there, we are analyzing this deposit; if the final feasibility shows a good result it would fit very nicely in our strategy in the nickel market, but we are still in the mineral exploration effort and trying to configure, to check on the potential production of this deposit, but there is a possibility there, yes.

On the Mato Grosso do Sul steel mill, my comment was a general comment, as the same approach we are having towards the São Luis do Maranhão slab plant or the Ceará state steel mill, we ... and the Espírito Santo projects there, if the gas is available; in the case of Mato Grosso, in the region of Corumbá, we already have operation there, in the Urucum mine, in manganese and iron ore and the government of Mato Grosso do Sul is willing to support growth initiatives there to build a steel industry there, so we will be happy to support with iron ore and try to develop, to attract investors to develop new projects there and that comment is part of our overall strategy of attracting new investment in the steel industry in Brazil, which development is in our best interest, so my comment there should be seen in this context. Regarding your second question I'm afraid I'll have to repeat, I have no further comment on this issue, OK?

Mr. Biderman: OK, thank you Fabio.

Mr. Barbosa: Thank you.

Operator: We thank you for your question, Mr. Biderman. The next question we have comes from Iran Siqueira of Banco Itaú.

Mr. Paolo di Sora: Hi, Fabio, actually this is Paolo. I have two questions, the first question is regarding your copper operations; I saw in your release on US GAAP in page F18 that you had revenues of US\$ 24 million on your copper business and operating results of US\$ 18 million, which means an operating margin of 75%; could you please comment on that as where this margin should go going forward? Is that correct or is not relevant for projections going forward?

Mr. Barbosa: There is no mistake there. But that was just our first shipment and in fact the margin is very high, has been very high given the very high prices that are prevailing in the market; however, we have to see a few more data in order to confirm that it will be the 75%, is a little higher than we ourselves were expecting, maybe some costs will be accrued for the next following quarter, I would advise to wait for the next figures in order to confirm the trend, but at these price levels I have no doubt that the margin will be extremely close to the levels we just showed, but I can't assure you that will be the same next quarter. We are just starting operations there.

Mr. Di Sora: OK and secondly if you could comment on the restructuring of CAEMI, the eventual decision of selling TPSA to CAEMI, how advanced is this project and if you give us some colors on that, please.

Mr. Barbosa: Paulo, according to CAEMI's view, just makes sense for them to consolidate the operations and we agree with that, so we believe that we can have some economies of scale in joining the two businesses and to catch us several synergies the companies may have, so the discussions are proceeding and when we reach an agreement on the final structure of the transaction, if there is a transaction, we'll announce to the market.

Mr. Di Sora: OK, thank you.

Mr. Barbosa: Thank you.

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

Mr. Barbosa: Well, I would like to thank you again for attending this conference and as usual myself and my colleagues will be available to any further questions you may have. See you next quarter, thank you very much.

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

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