



## Transcrição da Teleconferência Resultados do 2T05 12 de agosto de 2005

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

At this time I'd like to turn the conference over to Ms. Lidia Borus from Financial Investor Relations Brasil.

**Ms. Lidia Borus:** Good afternoon ladies and gentlemen and welcome to CVRD's conference call to discuss 2nd quarter 2005 results.

I'd like to mention that a slide presentation has also been made available at the company's website: [www.cvr.com.br](http://www.cvr.com.br) during this call.

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

With us today, this afternoon, is Mr. Fabio Barbosa, CVRD's chief financial officer; Roberto Castelo Branco, investor relations director and José Carlos Martins, executive director of ferrous minerals.

First Mr. Barbosa will comment on 2nd quarter 2005 results, afterwards management will be available for question and answer session. It is now my pleasure to turn the call over to management. Mr. Barbosa you may now begin.

**Mr. Fabio Barbosa:** Thank you very much. Good afternoon ladies and gentlemen, it's a pleasure to be here today to discuss 2nd quarter results and also to comment on our views about the future. We have the pleasure to have here with us today, Mr. José Carlos Martins, he is our executive director in charge of ferrous minerals and I believe that he can contribute a lot to the success of this conference call.

I will start with the presentation and then we will have a Q&A session and both of us, myself and José Carlos Martins and also Roberto Castelo Branco and our team here will be available for any issues you may raise.

Starting with the results of the second quarter, we see that CVRD actually delivered very, very good results, the best quarterly results of its history. Records in iron ore production; iron ore in pellets sales; gross revenues; adjusted EBIT; adjusted Ebitda, and net earnings and all of those items with remarkable performances and we are extremely happy with the results.

In the second quarter we reached a new record in shipments of iron ore and pellets, and we

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managed to achieve 62.4 million tons in total, higher than the all-time high of December 04, the fourth quarter of 04, 61.8 million tons representing an impressive growth rate in volumes of 11.8% considering all the constraints we had to increase capacity, due to starting of equipments and other aspects of industrial plants. Of course, we are... as everybody in this industry is facing some cost pressures, this is due to what we believe the long cycle in metals and minerals that is taking place and is just part of the game. One should not expect, for instance, to have a strong demand for equipment and human resources related with the industry and not having cost pressures, and not having as econometrically shown an appreciation of the major currencies of mining countries. So this is... this all makes sense. The issue is to determine how temporary or how permanent or how long the cycle would be in terms of our investment plans and growth... and growth plans.

As we see today, the cost pressures are normal and as expected and, particularly the price pressures related with the scarcity of what I mentioned before: equipment; parts and components and human resources, but the relative contribution as we show in the next chart there has been needing and we believe that in terms of, for instance, the exchange rates we should not expect much... all lot of further appreciation of the Real, for instance.

In terms of revenue growth, the major driver of the revenue growth was of course prices, that are reflecting the increase in iron ore prices achieved in this year and this made possible the achievement of an all-time high Ebitda of US\$2 billion... US\$2.033 billion in the second quarter of 05.

Yes, we shall continue now. Sorry for this technical problem. So we were commenting on the Ebitda growth of US\$ 2.033 billion in the 1<sup>st</sup>... in the 2<sup>nd</sup> quarter of 05.

Again, prices a main driver, volumes and dividends with a very good performance of our affiliated companies; depreciation and amortization reflecting the increase in our asset base and you see the large contribution of the Real appreciation, US\$173 million and this is due... this is due to the structure of revenues and costs of our company, as you well know, it is about 83/85% of our revenues denominated in U.S. dollars and about 30% of our costs only denominated in U.S. dollars. So we lose, ceteris paribus, we lose margins with the appreciation of the Real, and we gain margins with the depreciation of the Real and this has played a role in this second quarter, when the exchange, the nominal exchange rate reached an all-time high in the last few years.

In terms of our Ebitda performance, the next chart shows you that for 13 consecutive quarters we showed growth in this indicator and now our last 12 months Ebitda reached the mark of US\$5.034 billion and in terms of Ebitda structure we see the recovery of the relative share of ferrous minerals in our company, with the ferrous minerals responding for 83% of total Ebitda. Of course, we have the increase in production of 14% in iron ore; the increase in shipments that you saw, of 11.8%; but the major asset here is the price change, the relative price change that occurred, that made possible this recovery of the relative importance of ferrous minerals in total Ebitda. As a result of this performance, CVRD showed the very impressive figure for its net earnings, US\$2.3 billion in the first half of 2005, the highest net earnings figure showed by any mining company so far and this is very important considering the relative size of the companies that are involved here.

Another important aspect I would like to comment is that we are, as we informed in July, we are now an investment-grade company. Although we are just in the first step in this new leap, but



we are already starting to see the benefits of this investment grade rating and just this week we were rated triple B low by DBRS, a rating agency, a Canadian rating agency, authorized by SEC and we are very happy with this second recognition in just a few weeks about the quality or our... of credit. We are not happy yet, we should pursue further improvement in our balance sheet, further enhancements of our balance sheet. You know that we have a very large investment program and we would be working very hard to preserve the recognition we achieved so far in terms of credit ratings and also to keep funding our investment program and paying nice dividends to our shareholders.

In terms of investments, as I commented just a minute ago, we have a very large investment program this year, US\$3.3 billion; next year maybe even a slightly higher figure for our capex program. In the first half of 2005 we spent US\$1.4 billion, about 41% of the 3.3 billion we committed for this year. Our expectation is that we are going to catch up and to reach the programmed level or even a slightly higher a little bit, and we would like to highlight the authorization by our board of the implementation of the Vermelho Project. It is a US\$1.2 billion capex program. We start up in the fourth quarter of 2008 with 46 thousand tons per year of nickel and 2.8 thousand tons of cobalt. We are estimating an opex cost around US\$1.67 per pound; this would be a very competitive price level considering what is the average forecast for the long-term prices of nickel.

Next projects that are coming into line is Aimorés power plant, that will be fully operational by October 2005; Taquari-Vassouras we concluded the expansion and the expanded plant is now in the ramp up process, we should be producing 710 thousand tons of potash this year; and Alunorte alumina expansion stages 4 and 5 is 1.8 million tons per year. With that, Alunorte will have the total capacity of 5.3 million tons, 4.3 million tons, sorry, and will be the largest alumina refinery in the world. So it is not only the most efficient, but also the largest alumina refinery plant. This comes in a very good timing considering the price environment that is prevailing, where we see that the global alumina shortage is not expected to be corrected in 2006, so it is a perfect timing for our expansion and we should use very good results to the group as a whole.

Iron ore capacity expansion and Martins could comment further on that later on, will allow production to reach 275 million tons by 2007, up from 211 million tons in 2004, with the several projects. Carajás, 85 million tons is already a reality with the second ship loaded and the third card XXX already in operation; Brucutu 24 million tons but with room for more and Martins will certainly comment on that, sort of new issue here in this project; Fábrica Nova 50 million tons fully operational; Fazendão with 11 million tons down from 14 million tons of XXX of mine and 5 million tons additional production in Fábrica and 3 million tons in Itabira. We will have the depletion of several mines, Timbopeba; Gongosoco and others and by 2007, as I mentioned before, we will reach 275 million tons. The first half of 05 we produced 112 million tons of iron ore.

The next chart shows the very nice return on invested capital, despite the strong appreciation of the Real 38.2% in 2005 on an annualized basis, last 12 months ended in June 30, 2005. So very good returns to our shareholders, but we are not sleeping, waiting for opportunities, we are going after them. We are trying to shape our future and CVRD is starting to develop what we see as a global portfolio of mineral exploration projects. We have several of them going on right now in different stages, in conceptual studies like the Rio Colorado potash; satellite deposit of bauxite in Pará, copper as well; nickel in Goiás; São João do Piauí nickel again; and some more advanced projects like the Moatize coal project, that is already in the feasibility study; we have the manganese in Franceville, Gabon; and we are just starting the pre-feasibility study on the



Belvedere coal project. So we are becoming more global and at the same time more diversified in terms of industries in which we operate.

Turning now to the market fundamentals, the word that summarizes our view, the market continues to show very strong fundamentals and they are strengthening over time. We see lead indicators signaling a synchronized acceleration of industrial production growth. You see in this chart the reversal of the trend that was prevailing until basically early July 2005 and we see that this is a worldwide phenomenon. The U.S. economy showing strong performance, and Japan and even Euroland, although at a slower path but the fact is that the global economy, the indicators of the global economy are showing a very strong performance reverting what we could say was a quarter of short-term adjustment to continue sustained growth over a longer period of time. And behind that there is not only the strong performance of the U.S. economy that grew 3.4% in the second quarter of 05 on an annualized basis, but also the continuous good performance of Japan and other parts of the world, but particularly the Chinese GDP growth rate that reached 9.5% in the second quarter of 05. Fixed asset investment continues to grow steadily. Now it reached in the second quarter 27% and as you know this is a very good leading indicator of steel consumption in that country.

At the same time, iron ore export prices continue to stay above the benchmark prices and what happened actually is that the prices paid by some Chinese importers are now very near the prices, the C&F prices before the price increase in the benchmarks. So we were talking about US\$55 or so before the price increase. Now we are seeing a C&F price around US\$58 per ton. It is very good news for our clients and it means that a major part of the price increase was reduced or was offset by the reduction in freight costs. And freight costs, in our view, are not indicating any weakness of the market. It is a structural change given the increase in supply of king size vessels that we are observing in the market. You see in this chart there showing not only the actual increase in fleet that was observed in 2004 and expected for 2005, but you see that it is a growing trend with the growth rates over time changing as well. So this, of course, has a major impact in the market of those vessels, affecting price formation on a structural basis and this is not an indication of weakness of the market in our view. You should also consider that we are, we ourselves and several other companies, are investing in improvements in our port facilities in order to speed up the loading of ships and in order to avoid demurrage costs. This has resulted in a relative reduction in our demurrage expenses in the second quarter and is also an indication that more ships, or more effective capacity will be available to the market given this increased efficiency in ports and facilities in general.

Chinese iron ore imports are growing at a very fast pace and reached 131.2 million tons in the first half and we just got fresh numbers for the seven first months, the first seven months of the year, it is 152 million tons of iron ore imports by China and this figure is very much in line with the 260 million tons total imports expected for 2005 and another important new is that China became again in July a net importer of steel. So those are very good news and very much in line with what we think is the underlying strength of the global market as a whole and particularly the Chinese economy.

And if you turn to the next chart you will see that on adjusted basis, if we adjust for the seasonality of the imports, you see that the performance of the Chinese imports in the first half of 2005 was extremely strong, well above the performance observed in 2004. Chinese iron ore inventories remain very low our view, they are about the same levels since the end of 2003 and they now correspond to less than one month of consumption; so this is a very low level of inventories and another important aspect is that they are not composed by good quality iron ore.



And if you look at the next page you see why we are so confident, that this is one of the reasons why we are so confident that this is not a bubble, this is not a short-term phenomenon. China has a long way to grow yet before peaking in our view. This steel consumption is just an indicator, one indicator of the many that we do have here. China steel consumption for a per capita income of less than US\$5,000 was about 200 kilos; if you compare with the U.K 1970, with a per capita income slightly below US\$15,000 you have about 500 kilos per capita; France in 1973 about the same; Germany in 1974 about 620 and so on and so forth. So when we look at those figures and we look at what China has in terms of social infrastructure, of social demands and we see on the other side of the, let us say, of the balance sheet that China does not have any actual constraint to grow, macroeconomic constraint I mean.

What could happen is a shortage of raw materials in general, so it is a supply-side constraint, is not a demand side constraint that is enhanced by the very sound macroeconomic position. You see that we do believe that China has come to stay. It may have its hiccups here and there, but the fact it is that this is what we believe, a long-term cycle that will have permanent effects on the relative prices and consumption particularly of raw materials.

Turning now to a brief comment on specific markets, manganese alloys the peak that happened just recently was reverted due to the excess capacity built up and this capacity was mainly built in China and this made us to decide to shut down temporarily one-third of our capacity and that is what we are doing, we announced last Wednesday with the press release.

On copper, copper prices are tracking higher due to a strong Chinese demand, of course, concentrated bottlenecks and all-time low inventories and it is a pity that our production was not what we expected, but this is a fact of life, we have to deal with that. But I believe that for a copper project that started in July 2004 this is a very good performance; maybe we overestimated or underestimated the difficulties that we would have in this first project, but for a first project in copper to produce as we are indicating, 130 thousand tons this year, I believe that is a very good performance of the division. And finally on the aluminum, we see that this general global industrial production growth acceleration and power costs in the U.S. and Europe may help to sustain aluminum prices at those very, or relatively high levels that are being observed in the last few months.

I will stop here and I will again remember you that we have here with us Mr. José Carlos Martins, our executive director of ferrous minerals that is eager to comment on the latest developments of the market. Thank you very much.

## Question and Answer Session

**Operator:** Ladies and gentlemen we now will 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 star then two.

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

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

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**Mr. Alberto Arias:** Hi, it is Alberto Arias from Goldman Sachs. Good morning gentlemen and congratulations on the strong results. Fábio, you mentioned that the capex for 2006 apparently is going to be higher than US\$3.3 billion. This is the first time that we hear that. Could you tell us what has changed in the composition of your capex and if I understand correctly from your comments, it seems that the approval of the stages 6 and 7 for Alunorte has already been given. Out of that capex what is new and are you considering any acquisitions as part of it? And what percentage is on the steel project?

**Mr. Barbosa:** Thank you Alberto for these several questions you posed. The capex reflects some new projects that we have, for instance the Moatize project that we had before; a large disbursement of the Vermelho project in 2006 compared to what we anticipated beforehand and of course the appreciation of the Real and the increase observed in equipment prices.

So I would say that we are just updating cash flow or disbursements of the project and the exchange rate effect on that. There is no approval yet of the Alunorte stages 6 and 7, but I would say that it would make a lot of sense for us to proceed in this direction as we are expecting the new expansion is stages 4 and 5 to be operational in the first quarter of 05 and any feasibility studies should be concluded very quickly given the knowledge, the accumulated knowledge we have in this plant and the quality of the reserves that we have in Paragominas that are no constraints for any expansion of our alumina refinery facilities. And no, we are not we are not thinking of any acquisition in this capex level, OK?

**Mr. Arias:** OK just so I understand correctly, when you talk about US\$3.3 billion or excess of US\$3.3 billion in 2006 we should assume that part of it is on the further expansion of alumina capacity in Alunorte?

**Mr. Barbosa:** No, I did not say that would be a much higher figure, but we are not seeing any sign of reduction in the nominal level of capex in 2005, to the very contrary we are seeing some cost pressures, some postponement of disbursements and it is very likely, we did not conclude our budget process yet, but it is very likely that will be a higher figure for next year, 2006.

**Mr. Arias:** OK and my second question is on your press release you talk about this comment that called my attention, the company has increased the rate of waste removal which is carried out by outsourced services and this is apparently to prepare for more cost reductions in the future, but for that produce more at the high part of the cycle. If you could please elaborate, is there a change in the stripping ratio of your iron ore mines? And if you could please elaborate how are you accounting? Are we seeing that your costs are being inflated by just doing advanced pre-stripping or is this being capitalized and is also part of your capex?

**Mr. Martins:** No, the expense we have in stripping is always put in the cost of goods sold, OK? What we are doing we are going ahead, we intend to reach at least 12 months of being ahead, and normally we are between 6 and 8, so we are in some extent we are anticipating some expenses and we are accounting it as costs of goods sold. We are not putting in the capex. We are being quite conservative in this aspect.

**Mr. Arias:** Is that something you started in the second quarter or should we expect that we look going forward third quarter or fourth quarter we are going to see a further increase in cost?

**Mr. Martins:** Yes, we are accelerating this process, OK?

**Mr. Barbosa:** And you should expect also other price, cost pressures, because they are transported in trucks and most likely fuel costs will increase in the third and fourth quarters of 05 together with the payroll expenses.

**Mr. Arias:** The rationale of doing that I don't understand, because in a period where you have a lot of mining equipment shortage and some limits in the bottleneck of capacity it seems that you are at the peak of the cycle doing things that other mining companies normally do at the bottom of the cycle. I just don't understand the strategy there.

**Mr. Martins:** In our case the question is not capacity of using this equipment for transportation, OK? Because our main bottlenecks are in the logistics system and in the port, OK? By doing that we are not putting any kind of additional pressure in the production, but we are doing both together without any problem. Our bottleneck to producing more is really not in the mines, is mainly in the railway system and in the ports system. For this reason, what we are doing is only anticipating these expenses and preparing the mines to be in better conditions for the future, OK?

**Mr. Arias:** Thank you.

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

**Operator:** Once again, we would like to remind everyone to please ask one question and limit yourself to one follow-up question.

**Operator:** Our next question comes from Andrea Weinberg from Merrill Lynch.

**Ms. Andrea Weinberg:** Hi Fábio and congratulations on the extraordinary results. Let me go to this first quick question. Just to understand your costs increased 20% quarter over quarter and I understood that this was a kind of a peak of cost, but you just said with Martins that you probably expect costs to be higher on the third and fourth quarter. I just want to understand the trends here.

**Mr. Barbosa:** Yes, thank you Andrea. The issue is that what we are observing is that we have oil prices, important oil prices change in the international market. It is US\$64-65 per barrel today and again we are starting to see some exchange rate pressures as well and it is very hard for Petrobrás to hold it for a much longer period of time, because what we read about this issue is that Petrobrás was trying to find out how temporary would be this oil shock and it seems that this price level for oil may have a more structural nature and that is precisely related with the fact that China is a major oil importer and as we do believe that China has come to stay, maybe this oil shock may have a more permanent nature and thus Petrobrás may be forced to react to that soon.

Also in the second, the third quarter we are discussing right now with our employees the salary adjustment and with this appreciated exchange rate we will also have an effect on our regular costs that is there. Unless there is a major depreciation of the exchange rate, energy costs should increase further as well, given the peculiarities of the contracts signed by Albras with Eletronorte... with Eletrobrás and then we have some potential additional cost pressures there, of course we are trying to offset them as we can, but the general environment of investment and the pressures of the exchange rate appreciation and others that I just commented would not

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allow us to be optimistic regarding costs in the next two quarters.

**Ms. Weinberg:** OK. One very quick question to Martins. If you put at one side of the equation all of the long-term contracts that you have today plus the demand that you have for future long-term contracts and if you put on the other side all of the supply from CVRD that is coming on line over let's say the next three or four years, what would be the supply-demand balance for CVRD? Meaning, are you going to be able to sign new long-term contracts and fulfill all these contracts? Or you are still avoiding new contracts because you don't have the supply?

**Mr. Martins:** We are trying to manage, to balance both things OK? To tell the truth, for the time being we are less aggressive in getting new contracts not only because of the balance between supply and demand but because of the prices. We need to keep some space to monitor and to see if we get better prices for our products. We have now at least 80 to 85% of our sales covered by the contracts and we are keeping some space to analyze in the future if you can get better prices. This is a very sensitive matter, because we are increasing capacity in a fast pace and we needed to be sure that we have customers to get it. But as far as we are analyzing now, we have much more customers asking for signing new contracts with us; more and more mainly from China and although China is now growing in a lower pace the pressure for more high quality iron ore is increasing, so we are benefiting from this point and we are very, very conservative in analyzing long-term contracts nowadays.

**Ms. Weinberg:** Thank you.

**Mr. Barbosa:** Thank you.

**Operator:** Thank you for your question Ms. Weinberg.

**Operator:** Our next question comes from Jorge Beristain from Deutsche Ixe.

**Mr. Jorge Beristain:** Hi Fábio, Jorge Beristain of Deutsche Ixe. I will keep it at two questions. The first one is how much revenue is still left to collect retroactive to the first quarter that you should be booking in the third quarter? If you could quantify that in hundreds of million dollars?

**Mr. Barbosa:** \$30 million.

**Mr. Beristain:** \$30 million. My second question is relating to demurrage. You did touch on the fact that recent port improvements were leading to, as we saw, a quarter over quarter reduction in this historic cost line. Could you give us some guidance as to how much lower or how much more savings you expect on demurrage on the second half?

**Mr. Martins:** We are working in our ports at full capacity. By staying in this position, we have to be very much conservative in the way we ask the ships to arrive, but at the same time we are working very hard to reduce these expenses with demurrage and we have a plan to end this year with less than average 40 cents per ton of ship products and we are now below this figure, so we intend to keep below 40¢.

**Mr. Beristain:** I'm sorry, could you just quantify what that would be? I think you spent roughly US\$80 million last year on demurrage and....

**Mr. Martins:** Yes, if you reach our figures we are going to be down US\$20 million from last

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year.

**Mr. Barbosa:** 60 million, Jorge.

**Mr. Beristain:** OK thank you.

**Mr. Barbosa:** Thank you very much Jorge.

**Operator:** Thank you very much for your question Mr. Beristain. Our next question comes from Dustin Bergner from Gabelli & Company.

**Mr. Bergner:** Hi Fabio, this is Dustin Bergner from Gabelli & Company.

**Mr. Barbosa:** Hi Dustin, how are you?

**Mr. Bergner:** Good, how are you?

**Mr. Barbosa:** Good.

**Mr. Bergner:** My question is the revenue that was collected in the second quarter retroactive to the first quarter, could you remind us how large that was in the second quarter?

**Mr. Barbosa:** US\$306 million.

**Mr. Bergner:** Thank you. I was also curious. Can you give us a sense as to what sort of price differential you are seeing between your high-grade iron ore and perhaps a more lower grade iron ore that some other providers might be selling?

**Mr. Barbosa:** I will turn this question to Martins.

**Mr. Martins:** We calculate that nowadays for instance delivered in Asia our price is almost the same level as Australian prices delivered to the customer. We are now almost at the same price considering that we are far from Asia than the Australians. Delivered price is almost the same nowadays. C&F price to the customer is almost the same. There is an embedded premium for our order.

**Mr. Barbosa:** It is about US\$12, that is precisely the cost of freight differential, OK?

**Mr. Bergner:** Wouldn't the customers... would the customers want to pay more even on a delivered basis for your iron ore than they would for Australian iron ore?

**Mr. Martins:** If I consider the pressure that we are having from Chinese customers to sign long-term contracts with us I would say yes. We are now making some sales in Europe... we are making some sales in China at European prices, so that shows you that the customers are willing to pay a little bit more from our iron ore.

**Mr. Bergner:** OK thank you.

**Mr. Barbosa:** Thank you.

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

**Mr. Ivan Fadel:** Hi, good afternoon gentlemen. Just regarding the pellet volumes that were sold in this quarter. It was a decline quarter on quarter. I understand that a very large part of it could be explained by the maintenance shutdowns in Sao Luis plant. I was wondering if Sao Luis is now at full steam and we should assume the normalized levels for pellets in the second half and also if there were any nonrecurring costs from this maintenance shutdown? Thank you.

**Mr. Barbosa:** Thank you Ivan. Well, Sao Luis we had a programmed interruption in the production that affected the figures for the second quarter. We also had a problem with the conveyor out there. That would be the non-recurrent cost but is not a meaningful level. We expect to reach, to catch up during the year with this production and by next year we should be producing 7 million tons of pellets in Sao Luis, OK?

**Mr. Fadel:** OK and just a follow-up question regarding the Capex for 06. I understood that you said that part of a possible revision in this figure from your budget could be on the back of a low U.S. dollar or a depreciation of the Real. I was wondering if in terms of the updates, the total updates that you possibly have made in this figure from a previous budget, what kind of stake would the appreciation of the currency represent on that?

**Mr. Barbosa:** Ivan, we are just starting our budgeting process and the first indications that we have is that is in this direction, that we are going to spend more than we are spending this year in our capex program, but is too early to say, because we don't have the final figures yet, it is too early to say, to comment on the indicators or what would be our final figure, but again there are cost pressures there is this very important cost pressure of the appreciation of the currency and we are trying to warn the market that it is very likely that we will have a higher figure for capex next year, but we don't know yet what will be the final one.

**Mr. Fadel:** All right and you said that, correct me if I'm wrong, but you said that there could be some postponements...

**Mr. Barbosa:** No, it's just that the disbursements of, for instance, Vermelho when last year we imagined that we would be starting the Vermelho in January, then when we announced the Vermelho, the capex program for 2005 of 3.3 billion, we realized that this year we are going to spend only US\$34 million in the Vermelho project and we will spend a lot more in 2006. So US\$34 million is included in our US\$3.3 billion but a lot more in 2006 was not previously anticipated as spent in 2006, that is what I meant. But we are revising the figures right now and we will, as we do every year, we will make a public announcement of our capex program by early in January 2006.

**Mr. Fadel:** All right, so we can work with that 3.3 billion and some acceleration, which is usual in the second half of your expenses... of your disbursements?

**Mr. Barbosa:** 2005 3.3 billion is the figure yet, OK?

**Mr. Fadel:** OK thank you very much.

**Mr. Barbosa:** Thank you Ivan.

**Operator:** And once again we would like to remind everyone to please limit yourselves to one

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question and one follow-up. Our next question comes from Mr. Snehal Amin from TCI.

**Mr. Amin:** Hi, two quick questions. One, could you just, sorry this has already been asked. Could you comment on the CADE ruling in particular whether you are going to appeal as pertains to the CSN's iron mine? And the second question is what is your expectation for pricing for the next year?

**Mr. Barbosa:** Two simple questions. Let us start with the first one. I will comment a little bit then Martins could add on this issue, both issues. On CADE we are still analyzing the decision, because we have here in Brazil, the final decision has to be published in order to know all the details of the session in the council. The council was split, was a 3 to 3 vote and with the... and was untied by the vote of the chairman of the council. But what we understood of the decision, about the decision, was that in terms of the iron ore mine Casa de Pedra we should lose all our rights of first refusal on the assets and then on the railroads we could keep our holdings there, but with an equalized voting power compared to the other shareholders of the controlling group. That is what we understood.

Then the issue on Vitória Minas was addressed a few months ago by the very CADE. We believe that this was a balanced decision; I think it was not what we wanted but was a balanced decision. If we understood correctly what CADE decided, we must try to... we must decide on if we are going to keep the rights of first refusal or we are going to sell Ferteco. We are not going to sell Ferteco definitely, this is something that we do not consider, so we should focus on addressing the issue of Casa de Pedra mine and as our CEO commented yesterday, this in our view is an asset and we do believe that are some economics that should be contemplated in this discussion and that is something that we have a very firm conviction in this regard. Let us wait and see what are the final outcomes of this discussion. And I don't know if Martins...

On the second question you asked about the iron ore prices. I would say that what we tried to show here is that we continue to see very strong market fundamentals. You may have a poorer performance in the U.S. and European steel industries but Asian steel industries, particularly in China, are performing extremely well. You saw Chinese steel production increasing by 28%; India steel production by 12% in the first six months of the year; China again became a net importer of steel; we had iron ore imports reaching the record level of 152 million tons per year; pig iron prices are increasing; scrap prices are increasing; we show... we see no sign of deceleration in the demand for our products; so we are in a very comfortable position to discuss prices for the next year, but Martins will comment further on that.

**Mr. Martins:** Yes. In spite of a weaker market in Europe, Asian market was able to keep growing in the seaborne trade market for iron ore, so we did not... we don't see too many changes for the situation we were facing last year, so I think the conditions for negotiations of the new prices seems to be good for us. We seem to be in a good position to negotiate the prices for next year.

**Mr. Amin:** OK thanks.

**Mr. Barbosa:** Thank you.

**Operator:** Our next question comes from Craig Shaw from HLM.

**Mr. Shaw:** Hi, I just wanted to get your thoughts on dividend potential increase. Assuming your

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non iron ore prices remain fairly firm and forex rates stays very stable, you guys are going to make a ton of cash this year. Certainly you would probably even double the dividend if you wanted to. I am not sure you want to, though. So, I want to get your thoughts on what you want to do with the dividends and whether or not that would be contingent upon whether or not iron ore prices stay flat, go up or down next year? Thank you.

**Mr. Barbosa:** Thank you for your question. Well, this is an issue that we so far the company's decision is to pay a total of US\$1 billion in dividends this year, out of which 500 million were already paid in the first half. Of course, we are doing very well as you see by the results we are presenting, although we have a very strong capex program and we are spending this year at least US\$3.3 billion and next year will be much... it is very likely that will be a higher figure and at the same time we still believe that we have some improvements to implement in our balance sheet. So we are trying to conciliate all these variables, you saw that in the first half of the year we bought back some US\$240 million in debt, it was not clear in our second quarter figures due to some short-term borrowing that will be redeemed in the second half of the year. So we are trying to conciliate that and of course if we change anything we will let the market know in due time, OK?

**Mr. Shaw:** OK, so this would probably be something that might take place after 2005? Some time in early 06?

**Mr. Barbosa:** Sorry, could you repeat the question please?

**Mr. Shaw:** So would it be fair to say that this would be something that wouldn't be decided upon until early 2006?

**Mr. Barbosa:** No, I would say that we have a lot of variables to consider and you know our dividend policy that establishes two dividend payments per year. So we are in August and we haven't changed anything, we haven't proposed anything to our board or to our shareholders in this regard as yet, but I would not comment on timing. You know that according to our policy we are supposed to announce our regular dividend payment, minimum dividend payment every January. That is it.

**Mr. Shaw:** OK. Great performance, and thank you.

**Mr. Barbosa:** Thank you very much for your support, thank you.

**Operator:** And that does conclude today's CVRD conference call. We thank you very much for your participation; you may now disconnect your lines.

