



VI. Transcrição da Teleconferência

Companhia Vale do Rio Doce
2nd Quarter 2006 Earnings
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4:00 p.m. (London BST)

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

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star followed by zero.

As a reminder, this conference is being recorded. The replay will be available until August 12, 2006. To access the replay, please dial (55-11) 4688-6225 (access code: 929). The file will also be available at the Company's website at www.cvrd.com.br, at the Investor Relations section.

This conference call and the slide presentation are being transmitted via Internet as well. You can access the web cast by logging on to the Company's website - www.cvrd.com.br Investor Relations section or at www.prnewswire.com.br

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

With us today in Rio de Janeiro is CVRD's Investor Relations Director, Mr. Roberto Castelo Branco. First, Mr. Castelo Branco will proceed to the presentation and after that we will open for Questions and Answers.

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

Mr. Castelo Branco: Good morning. It's a pleasure to talk to you to talk about the 2nd quarter results of CVRD. Our Chief Financial Officer, Mr. Fabio Barbosa is coming during the conference call.

Well, we did have a very good quarter, which shows very clearly that we continue in a growth path, a profitable growth path. We had several records in production, in iron ore, alumina, aluminum, and potash, which reflects the conclusion of projects, as in the case of alumina and potash and productivity gains in iron ore and aluminum and overall, full capacity operation.



In potash we accumulated some inventories that are already sold in July. There is a very clear seasonality in the potash market in Brazil where the second half of the year is much stronger than the first half.

In iron ore we continue to present records in sales; our sales in the second quarter in iron ore reached 62.5 million tons, with 7.8% increase over the last quarter and 11.2% year-over-year growth. Over the last two years we concluded three projects – Carajas, 70 million tons/year; two new mines: Capão Xavier and Fábrica Nova and the first quarter of this year we acquired the new mine, Mar Azul, a small one that in the first half of the year produced over one million tons.

In alumina, reflecting the record ramp up of stages 4 and 5 of the Bacarena alumina refinery, we staged a production record of one million tons and as a consequence we have a record sales volume of 867 thousand tons.

In parallel with this very substantial operation performance, we had a record financial performance during the quarter in terms of gross revenues, which reached an all-time high of US\$ 4.3 billion in operational profit as measured by adjusted EBIT with US\$ 1.9 billion. EBIT margin in the quarter was 45.2%, 800 basis points above the historical average. In terms of adjusted Ebitda a new record as well, US\$ 2.2 billion, and net earnings of US\$ 1.9 billion.

This quarter have top line growth of 23.6% was mostly driven by volumes; 52% driven by volumes. Although price increased, this was much more pronounced in ferrous minerals, but volumes were the key factor behind this increase in revenues. For instance, in non-ferrous minerals we did have an increase in revenues, on a quarter-over-quarter basis, of US\$ 94 million. All this increase was due to the performance of copper concentrated sales. I have with me our executive director of non-ferrous minerals, Mr. Jose Lancaster, who will speak with us about non-ferrous minerals at this moment.

Mr. Jose Lancaster: In general it was a recovery quarter for the Sossego mine: during the first quarter we had some operational problems with our mills, we had, I would say, a normal quarter. The production was about 30 thousand million tons of copper; costs were kept under control and we are ready for an improvement in the second half of 2006. So Sossego, in general, is doing well and shows that it was a project that hit the right timing of the market, ok? So the project has paid for itself and we are very happy with it, I mean. In terms of nickel projects, I mean, we have concluded the feasibility study for the Mineração Saturno that we bought in December of 2005. We are presently studying the synergy that exists between Onça Puma and Vermelho in the Carajás area, but we have already started with the early construction work in earthwork and drainage, which are required to be made at this time of the year because it is a dry season in Brazil. We are very enthusiastic about Onça Puma; we are on schedule and ready to start production in nickel, in 2009.

Mr. Castelo Branco: Talk about cost on a quarter-over-quarter basis we have the stability of unit cost of production as almost 100% of our cost increase adjusted for depreciation and acquisition of other products was due to higher volumes of production and sales. In the quarter, the only item that was contributing and is still contributing to cost increase was materials that encompasses stir parts and tires which contributed with a higher price of these inputs to cost increase. But it is the first step in a program that is dedicated to reduce



costs and we are going to see the results of these cost cutting programs and our drive for reaching high efficiency levels, over the next twelve months.

If you compare Ebitda evolution between the two quarters – second quarter 06 with one quarter 06 – and adjust for the effect of retroactive price accrual, we have a very nice environment. Ebitda grew 27.6% on a quarter-over-quarter basis instead of only 7% as shown by the growth numbers and almost 75% of the increase in Ebitda was due to volume growth; that's a very healthy evolution.

In terms of earnings and operation performance we continue in a winning streak of high performance with growing earnings on the last twelve months period basis, which reached US\$ 5.6 billion; in the last twelve-month period earnings reached US\$ 5.6 billion; in the last twelve-month period ended at June 2006 and EBIT margins stayed at above 40% since the second quarter 05. And we are in the 5th consecutive quarter of above US\$ 1 billion earnings.

In terms of... next slide is showing that Capex is driving growth and diversification; more than 70% of our Capex is focused on growth, on project and research and development expenditures, and if you see the scenario by business areas you are going to see that ferrous minerals are responsible for 48% of our investments. On the other hand, ferrous minerals, as you know, are responsible for more than 70% of our cash generation. So we have under way a diversification process and it is very important in terms of performance: in this quarter, for instance, we had a weak performance for pellets but on the other hand, we have aluminum products and copper and more than offsetting this weak performance in order to allow us to reach a very good final result.

Finally, talking about investments, we see that although we had our invested capital more than multiplied by almost 5x over the next three years, our return on invested capital was able to be kept above 45%, which is a very important performance.

Talking about the future, we see that industrial production, which is very important in terms of support of the demand for minerals and metals, growing on a global basis for the 39th consecutive month. Global economy has been in an acceleration mood since second quarter of 2005; we expect now a deceleration in global GDP growth towards a more sustainable and moderate growth according to its long-term trend. We see a discontinuation of a very robust growth giving support to a very robust growth of the demand for minerals and metals but on a more sustainable basis.

Chinese economic growth reached a 12-year high in the second quarter of 06; in response to that growth acceleration there are several measures taken by the Chinese authorities in order to cool down growth, but we expect the Chinese economy to continue to grow a more moderate grade by Chinese standards, at 9% per year - consistent with its long-term trend.

As a consequence of these very high global industrial production growth at a pace of 5 to 6% per year, we have seen the recovery in steel prices that were reduced during, mainly during the second quarter of 2005, reflecting the global inventory cycle, but all regions in the world, steel price, as an average are approaching or reaching previous peaks.



As a consequence of the behavior of steel prices we have seen also the price of metallic, like pig iron or HBI, or scrap – here we are showing the performance of pig iron price – recovering very sharply since mid second quarter 2006.

Ex-China steel production is recovering as well, it was a negative territory in the second quarter last year and now it is going very strongly, reflecting an immense growth for steel products of approximately 5% per year. And as a consequence of this recovery of steel production in the world Ex-China, pellet demand in the seaborne trade has recovered as well and allowed us to return to the São Luis operation in order to meet this demand increase.

In terms of iron ore price, the spot market prices are showing a similar scenario that prevailed in the past; they continue above benchmark prices even after the 19% price increase, which shows that the disequilibrium between demand and supply is still there and it is important to notice that if you correct this price differential by price volatility and by cost difference, it should be much wider than it is now.

In terms of Chinese demand we have seen Chinese import to grow as expected; they reached the first half of 2006, 161.4 million tons and growing at 23% per year, which is consistent with our expectations for 2006.

In terms of alumina, price decreased as a consequence of a very substantial increase of Chinese production growth and announcement of Chinese capacity expansions till 2008, but alumina prices are expected to stay in a level, which is much higher than previous levels in the spot market, and at a level that will allow us to continue to have a very profitable operation.

Well, thank you very much. Now we are here, Mr. Jose Lancaster and myself will be available for questions and answers session.

Q&A Session

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

Operator: Our first question comes from Mr. Ivan Fadel with Credit Suisse.

Mr. Ivan Fadel: Hi, good afternoon gentlemen. My question regards to the cost impact in cost inflation and going forward, the trend of the cost. In the press release you mentioned that in IRC, lower impact of cost inflation that is higher in the prices and also that you expect to see results of the cost cutting program in the next twelve months. So what are the main measures you are going to take or you are taking for bringing down those costs? And what is the expected impact on, perhaps, Ebitda and Ebitda margin that you expect from those measures? Thank you.

Mr. Castelo Branco: Our goal, as we have said, is to reduce costs over a twelve-month period and we have, we are using all the alternatives we have in all areas to reduce cost, focusing on the items like outsource of service reviewing all the contracts we have, trying to



find opportunities to reduce cost. We are streamlining our operations seeking to increase efficiency. We have a very important program in this area; an excellence program focused on maintenance operations and investments execution. We are, as I said, there is no specific measure focused on cost cutting. We are analyzing, exploring all the options that we have, trying to discover, to find every opportunity we can to reduce cost in order to have a much more efficient and less costly operation, in order to continue to show a very excellent performance.

Mr. Fadel: Ok, and is there any goal in terms of achieving a certain amount of dollar amount or...

Mr. Castelo Branco: No, we have no goals. Our goal is to reduce costs and we are going to show the result over time; you are going to see that.

Mr. Fadel: Right, great. And the second question would be: you started the Sao Luis plant in mid July due to the recovery of the pellet demand, so how much do you plan to sell in total, of pellets in the next two quarters and what do you think are the reasons for the better demand for pellets?

Mr. Castelo Branco: Well, the reasons for the better demand for pellets are very clear: the recovery of steel production Ex-China, in the world Ex-China, as Europe and North America are much more important in the seaborne trade of pellets than Asia, so the recovery of steel production in these countries is the main factor behind a stronger pellet demand in seaborne trade. We expect the Sao Luis plant returning to activity on July 17th it's going to start, is starting production effective this month and we plan to operate it and the other pellet plants at full capacity and to sell everything, each ton produced will be shipped to a client, so this will form the scenario for the next five months.

Mr. Fadel: Ok Roberto, thank you very much, very helpful. Thanks.

Mr. Castelo Branco: You're very welcome, Ivan.

Operator: Thank you for your question Mr. Fadel. Our next question comes from Andrea Weinberg with Merrill Lynch. Please go ahead.

Ms. Andrea Weinberg: Hi Roberto, congratulations on the very good quarter. First question would be on your debt level; given your recent upgrades, again, under the investment grade by the rating agencies, I just wanted to understand what kind of debt levels would you be comfortable today and at what kind of total debt to Ebitda would be comfortable for you. And my second question would be to Lancaster, just to get an update on the projects- 118 is delayed a year, so I just wanted to understand the status of Vermelho and the status of the other three copper projects.

Mr. Castelo Branco: Good morning Andrea. Responding to your first question about debt levels, well we managed a financial policy in order to achieve several different ratios, not only in terms of total debt to Ebitda but there are several other indicators where you have goals, we have guidelines and are observed by the rating agencies. In terms of total debt Ebitda we have a very clear guideline of not achieving a level equal or higher than 2x and at the current moment at this point of the cycle, we are even correcting by the cyclicity of



debt and cash flows, we are in a very favorable position, very comfortable one below 1x – total debt is less than our Ebitda on a less-than-12-month basis. Well, I will pass to Jose Lancaster to answer to your question.

Mr. Jose Lancaster: Ok Andrea, you asked about copper and nickel projects, it was 118, project 118; we were issued, you know, the preliminary license, environmental license for 118, a couple of months ago; we are working in the process to be issued the implementation license; we expect this process in three to four months, ok, so we expect to be in construction with 118 starting in April of this year and that means that the project would actually have a start up around the first semester of 2009, ok? In terms of the nickel project, I think I mentioned, we also went through the process with the environmental agency in the State of Para; we got an approval from the agency and we should be issued a license in the next couple of months, the preliminary license again, and we will start with a process three or four months, just like 118 for the implementation license of Vermelho. So at this point we expect to start the Vermelho project in April of 2009 and in the meantime we have all the licensing and all the requirements to start the construction of 118 which we have this month, ok? So if you go to the Onça Puma site you will see the earthworks and drainage work that is being done and in the meantime, because of the proximity of the two projects – only 100 kms apart – we have a very complete study of synergy on the Capex and OPEX. So in the next two or three months we should have results of that and we will be able of issuing the final numbers for both projects. We also are studying the phase 1 of Solobo, ok? Solobo project we are looking from the point of view of hydrometallurgy but also from the point of view of a concentrate. The studies, I say, are in advanced stage and we will be able of, probably till the end of the year, have a direction for the Solobo project and the hydro metallurgical plant that we are building at Sossego, we are building an industrial plant, 10 thousand tons to test the sea salt technology, the use of sea salt technology with copper concentrate – that's under construction; we have done the earth works and we are now starting the civil works to start building the buildings and our autoclave which has been built in Italy is in the final stages, so I expect we will have the plant built by August of 2007, so next year you will start seeing the operation of the industrial plant.

Ms. Weinberg: Ok and the Alemão and Cristalino?

Mr. Lancaster: Those are in pre-feasibility stage, so we are looking Alemão from the point of view of an open pit or an underground, ok? To go under ground we need additional drilling that is still being carried out. And Cristalino is in a pre feasibility stage, we are studying, you know, it's a project and we are studying ways of determining base case for feasibility.

Ms. Weinberg: Ok, thank you.

Operator: Our next question comes from Mr. Rodrigo Barros with Unibanco.

Mr. Rodrigo Barros: Good morning gentlemen. First, regarding Capex we just saw recently some new entrance, just like Fotsco that just increased their estimate Capex by 37%, so my question is regarding your projected expansions, including the San Marco expansion, could you give us some light if the Capex is going to be within budget or is any cost inflation in those?



Mr. Castelo Branco: San Marco pipeline is not included in our Capex; San Marco is a JV, it's not included in our Capex, Rodrigo. But in answer to your question, of course our goal is to reduce, not only operational cost but also Capex cost and we expect to see some impact of these programs in the future. It takes time, it is not immediately, but we expect to see some positive effect, at least in 2007.

Mr. Barros: Ok, and my second question is regarding your steel projects? Let's say, CST just said yesterday that CVRD is offering some projects for expansion, including Maranhão, those that we already know. Usiminas probably has a new slab plant, and probably this should have to be decided with some final destination for the slabs. Could you give us some light on what slab projects CVRD is analyzing together with its potential partners nowadays?

Mr. Castelo Branco: Well, we have announced two projects, two major projects with a decent group, the CSA-JV – that's a very big project in the State of Rio de Janeiro and Ceará Steel, in the State of Ceará, Brazil. It's a smaller one but very important, so both will bring a new capacity of approximately 5.5 million tons... 6.5 million tons per year to come on stream by late 2008, first half 2009. As a result of CVRD initiative to promote it, we'll have the third blast furnace of Arcelor Brazil coming on stream in the first quarter of 2007. It is a new shareholder of CST and was able to promote these projects.

Mr. Barros: Ok, thank you Roberto.

Mr. Castelo Branco: You're very welcome, Rodrigo.

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

Mr. Daniel Altman: Hi, thanks very much. Congratulations for a great quarter. A couple of questions, firstly on China we've seen increases in iron ore production and rather significant increases; I wonder if you've heard anything on your end in terms of whether they're fudging the numbers or whether they truly have been able to achieve higher volumes and if it has any impact on the seaborne market. Second question is on the CSN right of first refusal, just to see if an update there if you had any volumes put to you or sold to you for the second half of this year – if you're anticipating any. And the third question is regarding INCO and I apologize for asking about this, but your name obviously has been... found its way into quite a few newspaper articles, related to INCO; one that said that you're working frantically on a deal, and I'm just wondering if you have any comments and what do you think INCO at these levels, would be too expensive for CVRD to jump in. Thanks.

Mr. Castelo Branco: Well, thank you Daniel. It's a pleasure to have you with us today. I will start responding to your first question – you don't have to apologize, you are only reflecting rumors and we do not comment rumors - that is all. Regarding CSN, we have no news about that. And third, regarding Chinese iron ore statistics we all have some difficulty understanding Chinese iron ore production, but what is real is that we continue to see a very strong demand for imports as we have shown the data; China imported 161.4 million tons of iron ore in the first half of the year and this continues on a very strong pace. So regardless of the statistics that sometimes reflect only run of the mine, sometimes iron ore, but in the real life, demand for iron ore, for imported iron ore continues to be very strong.



Mr. Altman: Ok, so no comments as in that on rumors on INCO?

Mr. Castelo Branco: It's our policy and we do not comment rumors.

Mr. Altman: Ok, thanks.

Mr. Castelo Branco: You're welcome.

Operator: Thank you for your question Mr. Altman. Our next question comes from Katie Blacklock with Thames River Capital. Please go ahead.

Ms. Katie Blacklock: Hello, I just have a question on the SG&A side in the quarter; there was quite a sharp jump in your SG&A expense for the first quarter and the second quarter of last year. I wonder if you could just explain what is happening there and what we could work with going forward and perhaps if you reallocated any cost to this loan.

Mr. Castelo Branco: Good morning Katie, it's a pleasure to have you with us. The SG&A increase on a year-over-year basis was due to, mainly due to salary increase; as you know we had a wage increase from July 2005 onwards, so there is a bias when you compare the second quarter of 2006 with second quarter 2005 due to a growth process, we increased the number of employees year-over-year, but from now on we are going to see some of the effects of our cost cutting program and there is nothing special about it.

Ms. Blacklock: So there are some labor cost obviously going to SG&A but presumably the majority of your labor cost go into the cost of goods sold side and if I look at the increase year-on-year, it was about 38% in Reais terms, so even with the 6.5% salary increase that you put through in the second half of last year, it still looks like a very large leap.

Mr. Castelo Branco: It's a much more one-event development and there were also some expenses in advertising, as a way to promote the image of the company domestically as part of our corporate responsibility program and this is a one-time event - it's not a trend.

Ms. Blacklock: Ok, and then I just had two very brief questions; the first on the alumina production, given the quarter that you'd had, are you still sticking with your full year production target of 3.8 million tons of alumina? And then lastly, just on the effect of tax rate, it was much lower this quarter; will that have any impact on your guidance for the full year tax rate?

Mr. Castelo Branco: We continue with our program to produce 3.8 million tons of alumina this year and 4.4 million tons next year. In terms of tax rate, it's only a temporary effect; we expect to have an effective tax rate for the year close to 20% and overtime, it's a conversion to a level of 25%.

Ms. Blacklock: Ok, thank you very much.

Mr. Castelo Branco: You are very welcome, Katie.

Operator: Thank you for your question Ms. Blacklock. Our next question comes from Martin Schultz, with Allegiant Asset Management. Please go ahead.



Mr. Martin Schultz: Hi, good morning, thanks for taking the question. Actually the first one was already answered. More of a macro perspective would be any thoughts on shipping prices and any thoughts also on Baltic try index, how is it coming up some more of a macro question - any thoughts on directionally where that might head and how it affects your business? Thanks.

Mr. Castelo Branco: Well Martin, we have had till mid-2005 a very sharp increase in shipping rates globally as part of the acceleration of global growth and mostly, the very substantial increase in maritime transportation of both products like iron ore, coal, soy beans, and others, but the shipping industry, the shipping companies reacted ordering a significant amount of tonnage from the shipyard; the shipyards were full of orders so even in 2005 the increase in tonnage for the global fleet of Cape size vessels, for instance, which Cape size vessels are the most important type of vessels the carry boats globally, are increased by an amount of tonnage that was the highest in history. And so there was an accommodation of ship rate towards a lower level and volatility in shipping rates is a fact of life; it's a market which is very volatile. So we expect to have some volatility around a lower level price. For instance, for iron ore from Brazil to Asia, we saw a level of US\$ 40 per ton in April 2005 – it was a big level; now we have shipping rates for this route varying from US\$ 20 to 25 per ton – a more moderate one. In terms of our competitiveness, of course, it would help us much more if we had lower levels of shipping rates, it would make our products much less expensive in Asia. On the other hand, the increase in shipping rates reflect the strength in the demand for iron ore and so this has two sides: on the one hand structurally it reduces our competitiveness, although we have been able to sell iron ore to Asia since 1955 due to the superior quality of our product. On the other hand, higher level of shipping rates reflects better performance of the global economy, very strong demand for boats, in particular, in the case of iron ore.

Mr. Schultz: Ok, great, thank you. Just a quick follow-up: any thoughts on why the recent index seems to be trending upwards? Are you seeing forward freight type of activity that would indicate continuing the re-acceleration by China rather buying on that front?

Mr. Castelo Branco: These are very short-term movements. It is very difficult to explain them.

Mr. Schultz: Ok, thank you.

Operator: Thank you for your question, Mr. Schultz. Our next question comes from Oscar Caprera of Goldman Sachs. Please go ahead.

Mr. Oscar Caprera: Hello gentlemen. Congratulations on the great quarter and continuous strength in the results. If we look at the results from MBR, you guys start trending to produce an excess of 60 million tons; just wondering if that are the expectations or should we look for something a little bit lower on the second half of the year.

Mr. Castelo Branco: We stick to a program to produce 254 million tons this year, mainly from the southern system with 120; Carajás has a goal to produce 85 million tons and in the case of MBR, 58 million tons. The MBR mines are presenting very good productivity gains and there is only a new mine – Mar Azul, which was acquired early this year and produced



one million tons, but if it produces more than 58, it will be good, it will be a very nice surprise. For the time being this is our program and we expect to meet the goal of reaching 254 million tons this year.

Mr. Caprera: Ok, thanks, and if I can just follow-up the previous question: in terms of the assumptions of the numbers that you are using for shipping transportation cost in the spot prices that you've shown us here; what prices are you putting under the US\$ 68/ton?

Mr. Castelo Branco: The spot price for iron ore transportation from Brazil to China.

Mr. Caprera: Ok, so that is the 20 to 25 that you were referring to?

Mr. Castelo Branco: Yes.

Mr. Caprera: Ok, thanks very much.

Mr. Castelo Branco: You're welcome Oscar. It was a pleasure to...

Operator: Our next question comes from Mr. Ivan Fadel with Credit Suisse.

Mr. Ivan Fadel: Hi Roberto. Just that you mentioned earlier that you expect steel production Ex-China to improve, however there widespread concerns over demand for steel and metals in general, specially concerning rising inventories in the US and also falling levels of the PMI in China – so how do you see this possible less favorable scenario of steel translated into iron ore demand?

Mr. Castelo Branco: Well, what we expect is more moderate and sustainable growth rate of industrial production around the world, since if you look back to the beginning of this global cycle, it is an alternated phase of acceleration and deceleration. We have a very clear acceleration from mid 2003 to mid 2004, then a deceleration between 2004 and 2005; a new acceleration phase that we believe that came to an end in the second quarter of 2006, reaching global GDP growth above 5% - it's not the long-term trend. Now we expect a deceleration and it is very healthy, it doesn't mean that we expect a weaker demand for minerals and metals; we are expecting the continuation of a strong demand but at more moderate levels and in the case of iron ore, there are no signals that demand for iron ore and pellets will weaken. We have a temporary weakening of the demand for pellets due to, mostly due to the global inventories cycle that is a national phenomenon within an economic cycle – there is nothing to worry about that.

Mr. Fadel: Ok, thank you very much Roberto. Thank you.

Mr. Castelo Branco: You're welcome.

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

Mr. Edmo Chagas: Hi Roberto. Two quick questions: your Capex in the first half of this year was about 1.9, I know that you don't have an even Capex but I would say that you're likely to be below the 4.6 billion guidance or we are going to have a higher Capex in the



second half of this year? And the second question is related to your shareholders debentures, you marked them to market this quarter, I guess that it should be something you are going to do, but the question is: are you going to provision the royalties that those debentures pay to shareholders on a quarterly basis as well?

Mr. Castelo Branco: We, regarding the Capex, we have a program budget is to spend US\$ 4.6 billion; the first half of the year we spent US\$ 1,944 billion and continuing the Capex, nothing was significantly changed, let's follow the numbers and wait till the year-end. In the case of debentures this provision is non-cash one, we are marking to market; there was a very significant average price increase, comparing the second quarter to the first quarter, then we made a provision. In the case of the revenues of the debenture-holders, this is made on a cash basis; we pay twice a year the remuneration of these debentures to the debenture-holders, so it's accrued on a timely basis and it corresponds to a cash expense. While the provision for the price increase is a non-cash one.

Mr. Chagas: Ok, thank you.

Operator: Thank you for your question, Mr. Chagas. Our next question comes from Tomas Pinto Bastos with AGF. Please go ahead.

Mr. Tomas Pinto Bastos: Hi, I just had a question on the hedges on your alumina or aluminum. My understanding is that they were attached to loan covenant and I am just curious if that, if there's been any change in those hedges and if not, going forwards if there is a time line in terms of when they might end or under what kind of condition we might see those hedges being removed. And the second question was if you could provide an update in terms of your mineral exploration or where else are you looking apart of Brazil in terms of your copper, coal, and nickel?

Mr. Castelo Branco: Well, regarding your first question, we have these – you are right – these hedge positions on aluminum and alumina were made to covenant, to comply with covenant and know that we were taken by our subsidiaries in the past and we abandoned this policy of hedging against aluminum price before the end of 2004 and at the current aluminum price it will be very, very costly to unwind these hedge positions, so we continue with them. They are going to an end these positions, they are going to mature, part of these in 2006, part in 2007, and 2008 we will have nothing. This is a decreasing; they correspond to a decreasing share of total aluminum production. The second question I will pass to Jose Lancaster to respond about mineral exploration.

Mr. Jose Lancaster: Our exploration activities outside of Brazil, you mentioned coal and copper; copper is in the Cordilleras of South America. We are doing activities in Chile, Peru at exploration stage. In terms of coal, I mean, we are advancing with our Mozambique project, our feasibility study should be done in a few months. We have a new front in Australia, the Belvedere project which we'll be working therefore maybe six months with positive intersections; this project is situated in the major basin of Australia - it is coke and coal, which is the main objective of CVRD. In terms of copper we are also doing some movement is Kazakhstan, we have a project there – Vostok project - that we are beginning activities, continuing Mongolia – we are also getting into the copper belt there of Africa; we already have projects in Angola and sort of looking on a regional basis the Congo and Zambia, in areas of copper.



Mr. Bastos: Ok, thank you.

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

Mr. Castelo Branco: Well, I would like to thank everybody for the attendance to our conference call webcast. Our webcast will be available in our website for the next 90 days. I would like to thank Dr. Jose Lancaster for his important contribution to this conference call and I only hope to deliver even better results in the future.

Mr. Lancaster: Thank you very much.

Operator: That does conclude our Companhia Vale do Rio Doce's second quarter 2006 earnings conference for today. Thank you very much for your participation, you may now disconnect.
