

**International Conference Call  
Companhia Vale do Rio Doce  
2<sup>nd</sup> Quarter 2007 Earnings Results  
August 1 – 12:00 p.m. (RJ time) / 11:00 a.m. (US EDT time) / 4:00 p.m. (British  
time)**

**Operator:** Good morning ladies and gentlemen, thank you for standing by and welcome to the CVRD's conference call to discuss second quarter 2007 earnings results. If you do not have a copy of the relevant press release, it is available at the company's website at: [www.cvrd.com.br](http://www.cvrd.com.br) at the Investors 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. To access the replay, please dial (55 11) 4688-6225 (access code: 134). The file will also be available at the Company's website at [www.cvrd.com.br](http://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 webcast by logging on to the Company's website, [www.cvrd.com.br](http://www.cvrd.com.br), Investor Relations section or at [www.prnewswire.com.br](http://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 Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First, Mr. Barbosa will proceed to the presentation and after that we will open for Questions and Answers. It is now my pleasure to turn the call over to Mr. Barbosa. Sir, you may now begin.

**Mr. Fabio Barbosa:** Thank you very much, good afternoon ladies and gentlemen. I have the pleasure to announce that Mr. Roger Agnelli, our CEO is joining us today. Also from different locations Murilo Ferreira, CEO of CVRD Inco is already taking part of this presentation; José Carlos Martins, our Executive Director of the Ferrous Division as well and from Belo Horizonte, I believe; and José Lancaster our Executive Director of Non-ferrous also present in our conference call. It is my pleasure to turn the floor over to Mr. Agnelli. Thank you.

**Mr. Roger Agnelli:** Good afternoon everybody, it is a pleasure to be here with you. We are here in Rio de Janeiro with a very nice weather, is like a summer time here in Brazil, but in fact it is a winter time and my colleagues are in different locations. Murilo, where are you Murilo?

**Mr. Murilo Ferreira:** I am in Toronto, Roger, and good morning, good afternoon for everybody.

**Mr. Agnelli:** Lancaster, are you there?

**Mr. José Lancaster:** Yes, I am in the Technology Center in Belo Horizonte.

**Mr. Agnelli:** And what about you Martins?

**Mr. José Carlos Martins:** Good morning everybody, I am in Sao Paulo and the weather here is less than 10 degrees, ok?

**Mr. Agnelli:** This is Sao Paulo, this is Sao Paulo, Rio is much better than there. Well, first of all I would like to convey a message to my Managing Directors, a message of congratulations for the results of the second quarter of 2007. The market is still very strong in all areas that we are operating today, we are in the maximum capacity, we are stretching all the systems that we have - mainly in the logistic system, but anyhow I think we could overcome all the difficulties that we faced in this second quarter of 07.

First of all we had some problems in the first and the second quarters of this year regarding to indians, regarding to quilombolas, regarding to some interruptions in our systems and mainly in the North system. But anyhow we beat all the records for the company in terms of production, in terms of profitability - the results are really very, very strong. CVRD Inco, Murilo is a doing very risky job there in Canada, the integration of Inco to CVRD is going very smoothly, without any major problem there; the production is in line with our budget, the same thing for the ferrous division, the same thing for copper, the same thing for aluminum, the same thing for potash, so I think everything is under control and according to our budget.

I feel that the second part of this year is going to be a little bit better than the first quarter. Some investments are in place right now mainly in the logistics, in the ferrous division, for nickel I think we are going to have other hole in the Sudbury mine in the end of this third quarter, but anyway the production for the year is going to be according to the budget.

In terms of investments everything is going ok, of course the cost pressure is still in place, is very strong. We are trying to reduce the cost of the company - I can tell you that I am really a lot, really very happy with the cost that we are facing right now. The oil or the energy cost is going up, the tires are going up, everything is going up and we are taking advantage of our size, we are taking advantage of our supply power to negotiate with our suppliers to have more reasonable prices for our spare parts, for our services, etc.

So I think we have a lot of work to do in this second part of the year, but I can tell you the market we feel that is still very strong, is going to be positive in the second part of this year. Next year I feel that the market is continuing to be very strong, we don't see and we don't feel any problems in terms of market. The problem is how to keep

production going up, as it is growing right now, and to deliver everything that we have with our clients, all the projects, deliver all the volume that the clients are asking right now. The people here are working hard, of course the projects are on budget, on time; we don't see or we don't predict any deviation in terms of budget for 07, but anyhow the work or the challenges to keep control or to reduce the cost for the second part of this year is going to be really a challenge, is going to be really a hard work to overcome this cost pressure. I would like to ask Fabio Barbosa to go through the presentation to you and I will be here to any questions you may have.

**Mr. Barbosa:** Thank you very much Roger, let's get started then. I would like to mention that my colleague Gabriel Stoliar is also here joining us today, he is in charge of planning and management here at CVRD. So as for the results in the first quarter I would like to highlight the sharp increase of our top line growth, as we put there in the brief space so we now have, considering the last 12 months, revenues almost US\$ 30 billion in our total revenues for the group, which is a major change from the 4.1 billion that we showed back there in 2002, so the company has dramatically changed in the last few years and of course the major driver the last few years has been the increase in iron ore production.

As you can see, from the first half of 03 when we produced 99 million tons to this first half 07 this production increased to almost 140 million tons. We came a long way and this, of course, was essential to achieve the position of number one supplier to China, which is the most dynamic market as you all know. We now have a market share that is about 24% of the total Chinese imports, a long way again from the almost less than 15 that we had back there in 2003.

Despite all the difficulties we had in implementing our projects, as Roger has been mentioning in terms of environmental permits and other project requirements for instance, we are planning our expansion to reach the capacity by 2011 of 450 million tons we are facing issues particularly in the North system related to the N5, right Martins? Could you comment a little bit on that? Martins, are you there?

**Mr. Martins:** Yes, could you repeat please?

**Mr. Barbosa:** I was commenting on the difficulties that we are facing to expand further our capacity given the constraints that we have in terms of equipment and cost pressures, but also associated with the environmental permit that we are trying to get particularly in Carajás, where we have this difficulty related to the N5 operation.

**Mr. Martins:** Yes, we are facing a lot of difficulties in obtaining the permits, environmental permits, to moving forward with our works and to tell the truth the main problems are in the logistic area, railway and ports. We have some ... the scale up of Brucutu mine was not so easy, we are now reaching the rhythm of 20 million tons per year, but we did not get the right performance during this first half of the year. Now it is running much better, but Brucutu was not a smooth start up as we expected.

We also had a heavy rain season this year, it rained much more than usually - more than 40% above historical levels - and this affected a lot mainly in the North system. But in the last two or three months the operation is moving better, smooth, and we are beating our targets from now on.

**Mr. Barbosa:** Thank you Martins and I would also like to mention that our sales in Brazil are expected to have a significant increase as we put there. As a result of our efforts to stimulate new investments in the steel industry in Brazil.

As you all know, the third blast furnace of CST, now Arcelor Mittal Tubarão operation is ramping up in this month of August and this is an increase of production of 2.5 million tons of steel per year and that should represent additional consumption of iron ore of around 4 million tons per year, so we are delivering in a way what we indicated to the market. Of course, this is Arcelor Mittal's doing, but they counted on our very strong support not only providing the additional supply, but back there when we were part of the controlling group of the company.

We would also like to mention the other investments: CSA, is going according to plans and scheduled to start up in 2009; and Ceará Steel that we are discussing, trying to implement this very important project for the Ceará state that we believe is a very positive one; and finally our ... Gabriel Stoliar just signed a memorandum of understanding with our Chinese counterpart to implement a new project in the Espírito Santo state, a new plant by Baosteel that will be producing 5 million tons of steel when concluded.

So a major impact in terms of the increase in steel production in Brazil that with all these projects together it should reach an additional 13 million tons of steel derived from efforts that CVRD was a major, major player in achieving this. So this is, to give you an idea, about 40% of the current steel production in Brazil, so it is a major drive that is there and that is, of course we are part of this effort that involves all our clients.

In terms of cost as you saw, you heard, you just heard Roger mentioning our effort continues. If we adjust our COGS – cost of goods sold - for the foreign exchange, the exchange rate change in the volumes we actually would notice a very small cost reduction. It is important that it is no longer increasing, but we have to be aware that this is not satisfactory to us as yet, we are not happy with the results, we continue to pursue a better position in terms of our cash cost position overall.

In terms of the margins, of course they are reflecting the very good strong momentum of the industry. Our total margin reached an all-time high of 51.3% - our Ebit margin - highlighting the very strong contribution of the non-ferrous minerals with almost 60% in margin; ferrous minerals in line with previous quarters, around 49%, 50%; and aluminum a decline associated with COGS ... energy costs particularly - that dropped down this margin to some 34%; and logistics moving around the same level 27%, 28% Ebit margin.

Our net earnings remain in a very strong upward trend. In the last 12 months we reached the double-digit figure of US\$ 11.1 billion; again I would like to call your attention to the figure in the first quarter of 03, it is less than US\$ 1 billion, so we came a very long way to reaching this position.

Our Ebitda a record level, increased by 1 billion, almost 1 billion compared to the first quarter of 07. Of course, prices played a major role but the volumes as you can see also responded for important 25% of the total increase in Ebitda in the second quarter of 07.

And we achieved the mark of 22 consecutive quarters of Ebitda growth and then I would like to mention the composition of this Ebitda, highlighting the contribution of non-ferrous minerals that is reflecting precisely the very strong performance of the nickel division and copper in the second quarter of the year, despite the very good performance of the iron ore division as well. But you just saw the margins that we observed in the non-ferrous and so the result is that the company was in a way more non-ferrous into the second quarter of 07 than ever and this is a challenge that our colleague Martins has to keep up with its market share, let's say, in our company and he is working very hard to reach this.

I would like also to mention that we also delivered a sharp reduction in our total debt, our debt was reduced by almost US\$ 4.405 billion and our total debt/Ebitda is now 1.3x against 2.0x that we reached in the end of 2006 when we concluded the acquisition of Inco, so it is a major achievement. Of course, we have been counting on a very strong performance of the market; but at the same time we show the market that we are capable of implementing a very smooth integration by acquiring a major asset like Inco and keeping the production as it was - even increasing it - and keeping the key staff and allowing the company to perform better than expected by ourselves by the time we acquired, so it is a very good performance that Murilo will comment later on during this presentation.

And again not only the debt reduction was impressive in our view, but also the debt profile improved sharply, with the average debt around 7% a year and the average maturity reaching more than 10 years, so it is a very comfortable debt profile that allow us to have all the required flexibility to pursue our strategic goals.

And our return on capital invested again above 50% - well above I would say - compared to the last 12 months and the second quarter, 54.2%, very much in line with the returns observed in 2006. So despite the major acquisition, the main big addition to our asset base we were able to deliver very strong returns on the capital invested, it means that we continue to invest, we continue to deliver very strong results to our shareholders.

Turning now to the outlook, our view as Roger already indicated is that we have a very positive view about the global economy and in our view it is a long cycle, we have

commenting this some time and you can see the global PMI indicating it is rebounding, indicating that a very strong performance of the economy worldwide is expected.

This is confirmed by the very forecast issued, recently issued by the IMF that revised upwards the growth for 2007 and 2008 now in the 5.2 level for both years, well above the 4.9 that we used to have beforehand and interesting this is also including a redistribution of the growth among countries, because it assumed a lower growth rate for the U.S. around 2% and a much stronger growth rate for China and India in particular, so it was a sort of redistribution of growth driving force that we observe according to the IMF forecast.

This means that growth in the world economy is less riskier than before, because is better distributed, less concentrated than in the previous years, so this is another positive.

Another important point indicating that we have a very good perspective moving forward is this ratio that we show there in the slide 19 indicating the ratio new orders per inventory. The inventory that is rebounding as well, this V shape, so there was an adjustment in the last few months, so there was some inventories consumption but now the new orders are recovering now well above 1 and this is a clear leading indicator for future growth in the industrial production on a global basis, so this chart here is adjusted for 3-months and you see there is almost a perfect correlation between this ratio and the global growth in the industrial production.

The same is happening with the steel. Steel production is increasing – prices are also increasing showing, again confirming the very good momentum. That is of course associated with this environment of strong demand that is being observed. The economy, the world economy is growing above 5% and this is a natural and expected result particularly when this growth in the world economy is driven by economies in a development stage that is lower than the so-called developed countries. So it is, in other words metals-intensive compared to the usual growth that we had a few years ago.

Indian iron ore exports another point that we would like to mention that we have been talking about the Indian pressure in a different way, that was commented initially by the market participants. The Indian pressure is much more in the supply side and these first half figures are just a confirmation of our view that we should expect some disturbances coming from the Indian exports on the supply side because they are growing; in the last three years - between 2004 and 2006 - they increased their steel production by 40%, so 45 million tons of steel and now in the first half of 07 the exports, the shipments were of course affected by the monsoon season but happens every year, but the fact is that they exported less in the first half of 07 than they exported in 06. This means there is less supply available that may have constrained the growth of the Chinese imports of iron ore.

And another indication of the strength of the market - and I would like to have Martins commenting on that as well - is the fact that the spot prices of Indian ore are now US\$ 117 per tons and the Chinese iron ore spot US\$ 114 per tons and these numbers are

not adjusted for quality and this is a clear indication that the market is imbalanced and I would like to have Martins commenting a little bit on the market. Please Martins.

**Mr. Martins:** Yes, the landscape for iron ore market is really brilliant, to say the less. You raised the main points, it seems that the main producers are not able to increase capacity in the same pace that the market is growing. We have now a very strong market in Europe also, all our big customers in Europe are asking for more iron ore and everybody knows that the European market commands a better price for iron ore than the Asian market and all the positions are very good, I think that our main path is first to increase production in the way the market is asking more and we are working very hard on it; second is to keep control on costs, because when you are operating in the way we are, it is really difficult to control costs because every additional ton you get you have much more margin on it, so it is very difficult to control costs and we are developing a very strong discipline to keep costs under control.

We are able now to keep costs under control on the Brazilian currency basis. For sure we are not able to overcome, for the time being, the impact of the devaluation, the revaluation of Brazilian currency so this is impacting costs a lot; but we are working very hard to keep it under control also, but you need very structural measures to overcome this impact of the currency.

So our main task is to keep production increasing and we are doing that, I think in the next half operational performance will be much better than the first one, the first half, and all the conditions are very good for, I would say, in my view a very easy negotiation period this year because all the basics in the market indicate that there is lack of iron ore in the market and also I think all the customers are also clear for them that the situation is very well for a new price increase, so when looking volumes that we can increase our results based on volumes. I think the situation is good for a better price and also the mix can improve, because Europe is now demanding more iron ore. So every ton that we sell in Europe - where we are a natural supplier for the European market - we can command a better price and a better margin, so the landscape is very good for iron ore looking forward.

**Mr. Barbosa:** Thank you Martins. And now I would like to ask Murilo to comment on the nickel market. Murilo, please.

**Mr. Murilo Ferreira:** Ok Fabio.

**Mr. Barbosa:** ... also on the market moving forward.

**Mr. Ferreira:** Ok. We think that the fundamentals remain positive in 2007. In the next few years demand for nickel remains strong, economy strong, outlook positive, Chinese growth remains robust and we expect to continue. Of course we know very well that the new suppliers were working hard in order to offer new supply, but new supply remains limited in the next few years. We noticed a significant movement in nickel prices just recently, in the beginning of the year it was 33,000 to a peak of 54,000 in May, the end

of May and today around 31,000. We expect some volatility in the third quarter, but we are very positive about the economic growth and will remain healthy and the leading indicators are good, worldwide demand for nickel and stainless steel is not so huge at this point of time, is not so good, but in the medium term outlook is strong.

The good demand across most of non-stainless steel application mainly in the aerospace, Chinese they are growing very fast and we are very positive and one point that we need to add in terms of information is about the current situation of the nickel pig iron, which is a tough issue. Each pig iron producer spends a lot of money buying nickel ore when nickel prices were still high and now their finished products they can hardly sell at good price to cover the cost and continue operations. We saw that some smaller nickel pig iron producers have been forced to shut down in the recent weeks facing with huge losses. We know that it is an issue, several players into this market trying to bring laterite ore to China, shipping from Philippines and Indonesia and we what we noticed just recently in the last two, three months that the market is changing substantially for them. Thank you Fabio.

**Mr. Barbosa:** Thank you Murilo. Well, as you can see in the slide on page 24 of course we see an inventory in the stainless steel industry reflecting in this nickel price decline as you see there, but as Murilo mentioned the fundamentals remain very strong and this could be again the first leg of the V shape curve that you can see in the copper prices in the next slide precisely, where we have a major adjustment in demand in the first few months of 2007 by the Chinese, but once the fundamentals prevail meaning that once the demand was effective and the resumption of Chinese imports occurred then the prices reacted and again moving around this level of US\$ 8,000 per ton. So this is very much consistent with how we see the world moving forward, a very strong demand, strong growth and of course the metals and minerals are positively correlated with the economic growth.

And finally on the aluminum prices also remaining in a very steady position, around US\$ 2,800 per tons, then as you can see the Chinese exports as we put there like and at this stage I would like to invite Lancaster to comment a little bit on our new alumina refinery, the agreement that we signed just a few weeks ago, it is an important thing; and also if I may Lancaster, to ask you to comment on our first months of operation of CVRD Australia in coal and the perspectives of Moatize. Could you comment on that please, on those?

**Mr. José Lancaster:** Yes. Just think about 10 days ago we signed a memorandum of understanding with Norsk Hydro that has to do with a new refinery there in Barcarena. signed for the first phase of this refinery, which will be about 1.8 million tons of alumina. The engineering studies are essentially concluded and the construction of this site will start in mid 2008 and it is a great event for us.

In terms of CVRD Australia we bought what used to be the MCI operations, we are now in a process of studying these operations under the pressure that we have today in terms of the markets of Australia - we have problems in the ports, but at the same time

we have already started dropping the cost of production. This year we will have about 4 million tons of coal coming from the operations there in Australia, we will be able next year to have an increase in production from our mines.

Moatize is going very well, we obtained the mining permit from the Mozambican authorities, we are finalizing our logistics contracts, we expect the construction to start probably in the last quarter or first quarter of 2008. The project is about 11 million tons of coal, of which 8.5 million are metallurgical coal and 2.5 million are of thermal coal.

**Mr. Barbosa:** Ok, thank you Lancaster. Now at this stage I would like to conclude our first comments, so I would like to open the floor for the Q&A session mentioning once again that again our CEO Roger Agnelli is here and our colleagues that took part of this first part of the conference call.

**Mr. Agnelli:** If I may Fabio, I would like to just remark some very important things. First of all, in terms of volume we are ok; in terms of margins we are ok; in terms of productivity, in terms of performance in all our operations I think we are ok. Another point that I consider very important is that we have been growing a lot in the last years and we have a lot of projects to be developed and I think we can manage, or we can have the same profile of growth that we have been showing to the market. I think there is no other company in the industry today that has the same pipelines of projects that we have.

So we are able to increase production organically, we were able to acquire Inco last year - that was very important for CVRD, because we bought it in this very good momentum in the industry and we are facing, and we have all the benefits for the very strong market that nickel is facing right now. The projects in coal, the projects in bauxite, the projects that we have in - let's say like that - centralized right now in terms of potash and phosphate are very good, the projects are really very, very good. The movement that we did two weeks ago to sign an agreement to explore uranium in Australia I think can open a very good opportunity for us to have the same thing here in Brazil and we are working with the federal government to allow us to mine or to explore uranium here in Brazil, so I am very positive, I am very optimistic about the future of CVRD, I think we are on track, the strategy we are following with all the discipline that is necessary to have.

Of course we are analyzing other opportunities that can appear in the market to take advantage of some acquisition movement, but this is not really our main objective, is just a matter of opportunity. So I think we can celebrate that the first half of 07 was according to our expectation, I think we worked very well to deliver the results and I think we have the opportunity to show more to the market in terms of what we can do to keep growing and to guarantee a very good result for our shareholders. Thank you.

**Mr. Barbosa:** Thank you Roger. Just a moment, let's start the Q&A please.

## Q&A Session

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

Excuse me, our first question comes from Mr. Roger Downey with Credit Suisse.

**Mr. Roger Downey:** Good afternoon everyone, congratulations on a very solid set of results again, another set of records, we are getting used to that already. Usual two questions, first one looking at the first half operations having not reached the rate of 300 million tons per annum for this year yet. My question is: is the 300 million tons mark for 2007 seen rightly, it is still feasible? And does that still leave you confident towards the 450 mark for 2011 - in iron ore production of course?

And the second question relates to your cost challenge. I think the whole industry is facing huge challenges in terms of cost pressures and we have noticed that despite the 9.5% price increase in iron ore the ferrous division Ebit margin dropped from 50.9 to 49.4. Would you be able to give us some more clarity of that and maybe tell us by how much the unit cost actually rose this year in the first half?

**Mr. Agnelli:** Martins, if you may please answer those questions.

**Mr. Martins:** Ok, relating to the volume, we continue to work with the target to reach 300 million tons this year. As Roger probably knows, always second half is better for production and also we have the scale up of Brucutu mine moving forward, so we expect to reach the 300 million tons this year. The bottleneck we have in the logistic system, so part of this volume we can produce, but probably we would not be able to deliver during this year because only next year we are going to debottleneck the railway system and mainly in the North system.

Relating to the costs we have two points to raise: one is a little bit bigger proportion of iron ore in terms of pellets. If you look in the first half, in the first quarter, we had a big proportion of pellets in the mix, which command a better price and a better margin. Another issue to consider is the impact of the valuation, because in the iron ore big part of the costs is in local currency and we have a big revaluation of the Brazilian currency during this period, so as I told you before we are controlling the costs in the Brazilian currency, but in a very short period of time it is very difficult to overcome a revaluation of almost 10%, which we had in this specific period.

So as I told you before we are working very hard to get structural measures in order to decrease our cost structure and overcome the impact of the revaluation. But is not something that you can get in a quarter-to-quarter basis, you need more time to develop new ways of mining, to develop new mines and then to reduce your cost structure and also to overcome the impact of the currencies on the cost.

**Mr. Downey:** Ok, thank you Martins.

**Mr. Agnelli:** Roger, this is Roger. I think one point that is that very important is we are not sleeping with this cost pressure, so we are working hard, we are working automation, we are working in terms of processes, we are working to find new suppliers for tires, for spare parts in order to reduce the costs.

In terms of production we feel that the second half of 07 is going to be much better than was the first half of this year. So we had several problems with communities in the North system, we had some problems in the plant, in the beneficiation plant there, we had some problems in the port facility due to the heavy rain that we faced the first and the second quarter of this year. So I think for the second part of 07 we are going to face a much better environment to increase production.

In terms of our target, Martins mentioned 300 million tons is our target and we are going to deliver it. In terms of growth for 2011 I think we are going to be able to deliver these 450 million tons capacity, I think we are growing and we are speeding up with the investments, we are training our people, we are doing everything that is possible to do in order to reach this production level. The problems are permits - that everybody in the world is facing this kind of problem - the problem is the capacity that our suppliers are going to have to deliver their commitments. For example, the plants or the beneficiation plants or trucks or locomotives or tires or whatever, everybody in the industry or everybody that supplies the mining industry is facing problems with capacity. This is a reality, so is not only for CVRD, it is for everybody. And more than that, newcomers are coming to the industry and they are going to face the same problem and they are increasing the pressure in terms of availability of materials and price also.

**Mr. Downey:** Thank you Roger, I think you are right, it is not a privilege of yours that all these pressures I think are shared by everyone and it is reassuring to know that you guys are really focusing on all of these issues. If I may, I just wanted to get a little bit of clarity, see if I understood something that Martins said. Martins, you mentioned that you would be producing the 300 million tons this year, but you would not be shipping them because of just these constraints? Is that correct, did I understand well?

**Mr. Martins:** Yes, because as we told before we are operating full capacity, so the volumes that we are not able to ship during the first half now we need to ship over the budget, we have a higher target for the second half and we need to recover what we left behind. So we are going to work with very big constraints in the logistic system. So maybe we can produce more ore, but we are not going to be able to ship all of that, because the mines are now operating in a higher volume, we have more capacity in the mines than we are able to transport and ship.

But all of these areas are improving very strongly again in the first half, so it is too early to say exactly what will happen. We are working to debottleneck, we are working to increase this capacity, we have a lot of investment being done in the logistic system and

that will be delivered during the second half, so maybe we can get a better performance in the second half, but anyway the target for production is kept and we are able to get there and you also know that we buy normally 10 to 15 million tons of ore from third parties every year, so all of this ore will be put in the system also and if we produce more we can buy less, so we can handle this in order to get the best performance for the whole system or in terms of volumes, or in terms of cost.

**Mr. Barbosa:** And Martins, very much in line with what you just said, we just were informed by Eduardo Bartolomeu, our Executive Director in charge of logistics, that we reached a record in transportation and shipments in July with almost 22 million tons for all the systems, integrated systems that they operate: the Southern system, the Southeastern system and the Northern system, so it was a very good indication in the very direction that you mentioned.

**Mr. Martins:** Yes, yes, we are working very hard to recover the volumes that we lost in the first half; so it is very difficult to say how much we are going to be able to recover, but some of the tons will be recovered.

**Mr. Agnelli:** There is another thing that the internal market is much more strong today, so even if we don't, if we are not able to ship we can deliver the material here in Brazil.

**Mr. Martins:** That is a very important point, because when you deliver to the domestic system, to the domestic market, you use less infrastructure, less logistic system, you don't use the ports, you don't use the railway in the same extent, so every time domestic market is performing better it is much easier for us to get additional volumes and now it is going on.

As Fabio mentioned before, we have the new blast furnace of Arcelor Mittal operating now, it started in July, so in a yearly basis almost 4 million additional tons and not only Arcelor Mittal, but all the other Brazilian steel mills are operating at a much higher volume and demanding more iron ore. So there is - even if you are not able to deliver all the volume because of the logistics constraint - we have this better situation in the domestic market that we can deliver more volume in this market and compensate part of the volume that we are not able to deliver to the external market.

**Mr. Barbosa:** Thank you Martins.

**Mr. Downey:** Thank you Roger, thank you Fabio, Thank you Martins.

**Mr. Agnelli:** Ok.

**Operator:** Thank you for your question, and I remind you to please restrict your questions to two at a time. The next question comes from Felipe Hirai from Merrill Lynch.

**Mr. Felipe Hirai:** Hi, Good morning everybody. I also have two questions here as well, the first one is regarding Capex. Total Capex for the first half of the year was at US\$ 2.8

billion, that is a little short of 40% of the Capex budget for 2007. So do you expect to still achieve this Capex in 2007 or was there any problem in the first half of the year?

And my second question is regarding your leverage ratios. So we saw that you have a total debt/Ebitda at 1.3x now after the second quarter these are definitely below the 2x after Inco, but we also saw that the media reported that you are actively bidding for Alcan; in the case you bought Alcan this total debt/Ebitda ratio would go above that previous 2x after Inco, so my question is: is there any limit for this ratio that we are seeing going forward, that could prevent for you making new acquisitions?

**Mr. Barbosa:** Ok Felipe, I will start the first one on the Capex. We faced a lot of issues regarding permits to implement our investment program. There are some delays in our infrastructure in the North corridor that we are not able, we are facing a delay that is around nine months now and according to, compared to the original schedule. So we have this issue regarding the environmental permit for N5 in the North system and several other issues related to institutional aspects of the investment, but also, as Roger already mentioned before, we are facing difficulties in finding contractors available to implement new projects. There is a shortage of equipment and there is a shortage of people, so we are facing actually all the constraints that one should expect in a very positive environment as we are living through right now, so our expectation is to get very close to the original plan of US\$ 7.3 billion for the end of the year, but we are facing a lot of constraints of several characteristics. And the second point I would ask Roger to comment on.

**Mr. Agnelli:** Hello Felipe, how are you?

**Mr. Hirai:** Good Roger, thank you.

**Mr. Agnelli:** Let me say one thing that for me is important: the first half of any year has in Brazil the rainy season, so we have a lot of new investments that we need to work with earth removal, we need to invest in logistics, etc., so in 07 we had a very heavy rain season here in Brazil, so that really delayed some start-ups of the implementation of some projects here in Brazil, ok? This is an issue that we need to consider. In the second part of the year I think we are going to be able to speed up all the investments because right now is not raining so much mainly there in the North system.

In terms of leverage I think we are in a very good position right now. We are reducing the debt, we are going to reduce more the debt in 07, this is our main target for 07. Thanks god that the Inco is providing us more cash than we were expecting, so I think we are going to be able to reduce the debt faster than we were expecting.

We are ok, we are in a very good position right now in terms of future because the pipeline of new projects and expansion of the existing operations is huge, so we can keep investing and we are going to provide a very healthy growth rate for CVRD without any problem in terms of leverage. The banks are eager to lend more money for CVRD. We are very disciplined in terms of acquisition; of course we need to analyze carefully

any acquisitions, if we feel that we can go for a major transaction I think we have a balance sheet to do that.

We don't see any change in the market for near future, so I think we are in a very good position, we have options. We can keep growing with our brownfield projects, greenfield projects and of course we can take advantage of our financial situation right now to go for a major acquisition. This is not our priority, but we are aware that we can do that. With discipline, of course.

**Mr. Hirai:** Ok, but is there any theoretical limitation to your leverage ratios that you could have to ... not to surpass so that you can keep your investment grade rating? Something like that?

**Mr. Agnelli:** The investment grade rating is very important to have and to be honest with you I feel that we deserve a better rating, because we are delivering everything according to the budget, according to our expectations. Fabio Barbosa promised me that he is going to work very hard to achieve this upgrade in our rating until the end of the year. I think it is possible to get there. This is really something that we care, we would like to keep it, we would like to improve it; but if we find out an opportunity that we can really deliver a better return to our shareholders creating value or integrating with our current operations we are analyzing carefully and we see what we can explain to the rating agencies that we are doing. I think we have the right profile of the debt - we have long-term loans, we have long-term bonds to finance the projects is easy, right now we don't see any big problem, so we have room in our balance sheet to move ahead without jeopardizing the investment-grade rating.

**Mr. Hirai:** Thank you.

**Operator:** Thank you for your question and I remind you to please restrict your questions to two questions at a time because of the long line of participants and our next question comes from Jorge Beristain from Deutsche Bank.

**Mr. Jorge Beristain:** Good morning Roger, it is Jorge Beristain with Deutsche Bank. I have a question just following up again on the cost inflation issue in the iron ore business. It seems like a pretty simple equation - you increased your contract prices this year by 9.5%, but cost inflation seems to be running roughly 10 to 11%, therefore your Ebitda margins are falling. Has this changed or this sudden changes in currencies changed your view as to how aggressive you want to be going into the 2008 iron ore negotiations because it would seem that CVRD is taking a significant currency risk on its balance sheet in locking all these long-term contracts, that is my first question. And secondly and this maybe for Fabio, if you could explain what exactly you are doing to mitigate the exchange rate risk imbedded in your operations given that it would seem that the exchange rate was 100% to blame for the higher quarter on quarter cost inflation that we saw from the company?

**Mr. Agnelli:** Hi Jorge, it is nice to talk to you. First of all, for the price negotiation I think we need to analyze the dollar value against the other currencies. If we analyze the dollar against Euro I think we have a margin to deal with that; if we analyze the dollar against the Asian currencies I think we have margin to work on it.

In terms of demand the demand is very strong, so I think we can compensate the appreciation of the real in the next price negotiations, that is for sure because the dollar is weak right now against the major currencies in the world; of course the cost is going up and the demand we feel that is going to be very strong for next year, so I think we have a very good opportunity here.

Another issue in terms of cost. As Martins mentioned, being working in this level sometimes brings more costs than benefits; but we are able to manage that during the time, so with more time to come down this cost and we are working hard with contractors, some activities we are doing by ourselves - we are reducing the cost bringing some activities to, for example, maintenance in some areas we used to work with contractors, right now we are doing by ourselves, so these contracts we are analyzing each one carefully how we can reduce the costs.

**Mr. Barbosa:** On your second issue Jorge, I would mention several measures that we adopt to mitigate the exchange-rate risk and first of course we were not driven by this, but the result of the Inco acquisition was a structural reduction in our exposure to the real, this is one thing, so CVRD today - CVRD group today - is less exposed to the real than it was before the acquisition in relative terms.

A second point is that if you recall we issued debentures to the domestic market last year and we swap them back into dollars, so if you noticed the financial statement there is a very important gain associated with the appreciation of the real in the financial expenses that is precisely related with the successful program of the debentures over US\$ 1 billion if I am not mistaken. This is just a sample of what we have been doing to mitigate this cause.

Another point is that we included our head of procurement, Mr. Almir Resende in our risk management committee because we want to increase our dollar denominated purchases, in order to reduce again the structural exposure to the real.

And finally a final comment is that one of the benefits of the diversification is precisely that if we have one division more affected by a specific cost we have all other divisions that could offset or more than offset this specific cost pressure that is more, let's say, specific given business division, as you can see by our Ebit margin that again reached an all-time high of 51.3%.

So it is not simple, we have sometimes a narrow market, we have some structure constraints for instance in buying equipment or paying the payroll, but we are progressively balancing our exposure to the several currencies.

**Mr. Martins:** Fabio, is Martins speaking.

**Mr. Barbosa:** Go ahead.

**Mr. Martins:** I would like to address the issue of costs because this is a main issue in our agenda. In mining when you produce more normally your cost goes up, because you have to go deeper in the mines and you have to move further the iron ore and also you generate more waste, so the more you produce, more pressure on costs.

I am not talking about the exchange rate variation, but I am talking about structural costs. So the way to overcome this is to open up new mines. For instance, Brucutu mine is operating at much lower cost than the old ones mines. In the North system, with this new project to bring 150 million tons of iron ore in the North system we are going to reduce costs a lot, because the new mines will operate at much lower cost than the old ones. But in the short term, as we are trying to get an additional ton of iron ore from the existing mines we have an additional source of cost pressure.

So it is really a tough equation to keep costs under control because you have the pressure to produce more and this brings additional pressure on costs and we have also the exchange valuation. But one thing is very interesting to mention: in the Brazilian currency we are now keeping our costs under control, so we need to improve our productivity in the existent system and to bring this new iron ore mines on stream and then we can change our cost structure a lot. So if you think about bringing 150 million tons of additional production with a much lower cost structure in the system and we can have an idea of how much we can reduce our cost structure going forward.

**Mr. Barbosa:** Ok thank you Martins.

**Mr. Beristain:** Ok thank you.

**Operator:** Excuse me, our next question comes from Mr. Rafael Biderman with Bradesco Bank.

**Mr. Rafael Biderman:** Good morning everybody, congratulations for the results. My first question is regarding consolidation, a follow up of this previous question that was asked. What typically you guys cannot be very open about it, but if you can give some indications in terms of if CVRD what they about consolidation base focus in some metals or others, if they have a focus in terms of metals and in terms of size of acquisitions, if they look you just acquired the tunnel mining exploration company in Kazakhstan - I think is Scarborough mine - if you look for movements like that; and also if there is an opportunity of a bigger move, how can you fund that considering that the acquisitions are getting close to US\$ 50 billion levels?

My second question is regarding the investment project, if you could give a follow up on Goro and Onça Puma and also Paragominas, if Goro and Onça Puma the technological issue is still an issue now that you guys are really building the plant or this is something of the past?

**Mr. Barbosa:** Ok Rafael, thank you very much. As for the first question, our priority as Roger mentioned, is organic growth. We have one of the largest pipelines of projects in the industry, one of the most interesting in terms of opportunities - the several products and industries where we operate: in iron ore, copper, nickel, aluminum - so we are very happy with that and again, we are always pursuing new alternatives and that is why we invest so heavily in mineral exploration in order to find new alternatives of organic growth.

But we always look at the market and analyze opportunities that could arrive in terms of acquisition as we did in AMCI, as we did in the case of MBR, so we are always ready when this opportunity comes to proceed and generate values for shareholders.

As for your second question, I would ask Murilo to comment very briefly on Goro and also Lancaster on Paragominas. If you could please, Murilo start?

**Mr. Ferreira:** Ok, I think that now we are much more positive about the Goro project. We did a big effort in order to bring the project in the track the best way, mainly in the environment we did a huge reduction in terms of the emissions related to the manganese from 100 ppm for less than 1; the relationship with the community is much better, we are talking with everybody, opening dialogue; and in the technology point of view we are doing our best. We recognize that our team, the expertise with the CVRD Inco is we work with technicians with high expertise and we are very positive about the project, Fabio.

**Mr. Barbosa:** Ok thank you. Lancaster, would you comment briefly on Paragominas?

**Mr. Lancaster:** OK. Paragominas we – most people know - had a delay of about a quarter to start our mining pipeline project. In the first quarter we are operating the pipeline we achieved about 75% of the transport capacity, which is very good considering that Paragominas is the first bauxite project in the world that transports bauxite with a pipeline. This month we are already about 85%, so I think it is going to be an extremely successful project that will allow us to keep growing to provide additional bauxite for the new refinery and also will allow us to perhaps use our additional bauxite reserves in Brazil and overseas.

**Mr. Agnelli:** I would like to add some important information about those comments. First of all Rafael, I think we have been playing this game of consolidation successfully in the last few years including iron ore, including nickel and other areas also. The point is we have a huge capacity to grow in the aluminum business, in bauxite and alumina. What we are looking for is energy sources; as you know, Brazil is a little bit short in terms of energy supply for the future but we have some opportunities here in South America, we have some opportunities there in Africa, so I think we are going to have opportunity to expand our primary aluminum production in the next few years. So of course aluminum is a very important business for us and I feel that the future is going to be very good for this industry also.

In terms of nickel, Goro, you remember that we increased the budget for the Goro nickel project of US\$ 3 billion. Part of this increase is due to the bypass that we projected for the Goro project in order to reduce the risk of technological problems in the start-up of the project. So for Goro of course there is a challenge for us, I think we are able to deliver it but anyhow the project is already considering a bypass in order to avoid any technological problem.

Onça Puma we don't have any problems there because there is no challenge in terms of technology, in terms of processes and anything else, so I think we are very comfortable with this challenge in terms of technology. Is it right Murilo?

**Mr. Ferreira:** Yes absolutely, absolutely Roger, we are very confident about the whole process. The implementation of the Onça Puma project is going smoothly and we spent a lot of time, big efforts to store everything in New Caledonia, but we are extremely confident that we will be able to deliver the project in the last quarter of 2008.

**Mr. Biderman:** Roger, just a follow up. When you mention about interested in aluminum assets, and about copper? Is copper an interesting asset to go after? And also a follow up is like if acquisition movements start going above a certain level of US\$ 50 billion if its funding with shares is also an option to help acquisition movements, or the acquisitions you guys are looking are just with just cash?

**Mr. Agnelli:** Copper is a very interesting industry and we are implementing the Salobo project and 118 project also and we have some opportunities in Chile also in terms of price and resources and we are keeping exploring in Africa etc., etc.

We need to analyze area by area to see if it is better you increase your production over time to our greenfield projects or if it is interesting to acquire a company. The point is there is a rush right now for minerals, including copper and iron ore etc., etc. We feel that the resources that we have, the capabilities that we have by now in terms of people, engineering, etc., etc., to implement new projects is better keep implementing or growing organically, is much better, is cheaper, the return is better. The point is there is a lack of ore, there is a time to implement all these projects, but of course we are always open and we have the option to analyze, have the opportunity to analyze acquisitions also. But this is not our priority, I would like to stress that we are not looking to acquire anybody right now, only what we are doing is our homework to see if there is any opportunity in the market.

**Mr. Barbosa:** Thank you.

**Mr. Biderman:** Thank you very much.

**Operator:** Excuse me, Ladies and gentlemen we kindly request to please restrict your questions to two at a time.

Our next question comes from Mr. Rodolfo de Angele from JP Morgan.

**Mr. Rodolfo de Angele:** Hi, good morning everyone. My question is on the iron ore capacity increase and the constraints that you guys just mentioned that you are facing there. I just wanted to clarify what does that mean in terms of risks to the schedule of the capacity increases that you guys have and also in terms of the total Capex?

**Mr. Barbosa:** Martins, could you please comment?

**Mr. Martins:** Ok. Referring to the terms of this project, we are keeping the schedule because we are working in all the basic engineering of this project; *pari passu* we are working on getting the permits involved; so we are confident that we can keep the schedule and to increase 150 million tons capacity by end of 2011 as we stated before. Relating to the Capex we are working on it and we are not prepared to deliver the number of how much we are going to invest on this, because we did not finish all the basic engineering relating to this project.

**Mr. de Angele:** Ok, just a follow up. Martins, what about the 130 million project in Carajás?

**Mr. Martins:** Is going very well and we are going to present to our board next month considering the system we use to evaluate this project, the front-end-loading we are going to present this project to our board so we have very much, we are very much confident that we can bring this production during 2009 to the market.

**Mr. de Angele:** Ok thank you.

**Operator:** Thank you. Our next question comes from Gaurav Bana from Alliance Capital.

**Mr. Gaurav Bana:** Would you sacrifice investment grade ratings for a short time and then tell them if it is getting yourself well-priced, attractive asset or company? Thank you.

**Mr. Agnelli:** It is hard to say that in principle. In principle no, we would like to keep the investment grade of course and I don't see any possibility in short terms to lose investment grade to go for an acquisition. But in any case what we have been analyzing right now we don't feel that we are losing, or we can happen any transaction that can bring us to a downgrade.

**Mr. Bana:** Thank you.

**Operator:** Thank you. Our next question comes from Oscar Cabrea from Goldman Sachs.

**Mr. Oscar Cabrea:** Good afternoon everybody congratulations on the solid results. The first question has to do with the cost pressures relating to the iron ore business. If you

are still fighting in increasing your production by 150 million tons I am assuming that you are working mines already preparing for this expansion. If you are facing delays in terms of environmental permitting, does that mean that the stripping of the mines has to stop and therefore your cash-cost then would be less pressure from that perspective? That is the first question, then I will just follow up with that, with a quick question on nickel.

**Mr. Barbosa:** Martins, could you please?

**Mr. Martins:** Yes, relating to this capacity increase we are not stripping the mine yet, we did not start working on the land field, at the land at this moment, so this will be done after the project is approved. To tell the truth, we are facing some difficulties for stripping the existing mines because even for the existing mines in the nearby areas when we need to start moving there we need permits and yes, we are facing difficulties to get permits so this is bringing additional cost to existing operations because sometimes you cannot start stripping a new mine in the existing area because we have not permits to eliminate the forests that are there and in this case we have to go deeper in the existing mines, so we are now facing some cost pressures because of it, but we are working very hard to get the permits and - I think I told you before - in Brazil normally you have a lot of constraints in this aspect, but you always get the permits; the question is the time you need for getting the permit.

But the permits will be get at the end, so that is the way things are in Brazil, you have a lot of bureaucracy work, a lot of agencies involved, so it takes a lot of time to get the permits. So for the future project, 150 million tons project, we are looking for the permits but for the time being we are not affected, the schedule is not affected because of the permits.

In the existing mine yes, we are facing difficulties to get the permits to work there and this is really affecting our cost structure.

**Mr. Agnelli:** And Martins, I would like to add that we have been increasing our production in a way to offer more than 30 million tons per year so it is successful, we are successfully dealing with this issue here in Brazil. Of course everything is not exactly as we would like to have, but I think we are dealing very well with this issue.

**Mr. Cabrea:** And another question Roger which is I wanted to get an idea in terms of the timing with those permits because then your Ebitda margin would certainly increase, would be better than what you have currently. And also in terms of the iron ore pricing the negotiations that you are facing this year.

Anyway, the second question with regards to the departure of Marck Cutifani. I believe Marco is one of the architects that turns Sudbury around in 2003 and it is our understanding that he is going to become the next CEO at AngloGold; in terms of succession there just to keep the integration smooth in Inco, do you guys have a successor in mind? Were you aware of this departure before or did this come as a surprise to the company? Thank you.

**Mr. Agnelli:** Well, Mark Cutifani is really a very nice and very good professional, he was promoted to be the CEO of AngloGold, good for him. In terms of people, of course we have a lot of talents that can take this job, can take his position to continue to deliver good results and very good works, effort there. We don't have any problem to replace Mark cutting, Marco is a very nice guy, he received a very, very strong proposal from Anglo Gold, good for him, good look for him and life continues - so no problem, no big problem at all. I think CVRD is a window for the executives because many of very good executives that we have here they become CEOs in different companies, so I can tell you at least 10 that left CVRD and became CEO of another company and we did not have any problem here. So I think we have a very good team, that is it.

**Operator:** Thank you. Our next question comes from Jason Miller from Twin Capital.

**Mr. Jason Miller:** My question has already been answered, thank you.

**Mr. Barbosa:** Ok, thanks.

**Mr. Agnelli:** I think we got to the final, one last thing I would like to say is that we are continuing to work hard, with discipline, following the strategy and I can tell you that you are not going to have any surprise down the road. What we have as a priority is to reduce the debt, continue to reduce the debt, continue to invest to increase our capacity in all the activities that we are involved.

We feel that the market is strong and is continuing to be very strong in the near future, CVRD is very well positioned in the industry to be a major player in this industry and we are analyzing everything carefully here, with discipline, we are always considering the environmental issues as a core business for us, we need to treat it very well and I think we are addressing all the issues that we have around the globe properly. We are very good citizens where we are present - here in Brazil, in Canada, in Italy, in Africa, in Australia, etc., and we would like to continue to be good citizens where we are. Thank you very much for your supply, thank you very much for your interest in CVRD and I can tell you we are going to work hard to have CVRD as a star in the mining industry. Thank you very much.

**Operator:** That does conclude our Companhia Vale do Rio Doce's Second Quarter 2007 Earnings conference for today. Thank you very much for your participation. You may now disconnect.

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