

Conference Call Transcript Third Quarter 2003 Results November 13, 2003

Operator: Ladies and gentlemen, thank you for standing by. At this time all lines are in a listen only mode. Later there will be a question and answer session. Instructions will be given at that time. If you should require assistance during the call please press star, zero. As a reminder, this conference is being recorded. At this time I'd like to turn the conference over to Marina Martini from Thomson Financial Investor Relations. Please go ahead, madam.

Ms. Marina Martini: Good afternoon, ladies and gentlemen and welcome to CVRD's conference call to discuss third quarter 2003 results. I'd like to mention that a slide presentation has also been made available on the company's website at www.cvr.com.br during this call.

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

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

First Mr. Barbosa will comment on the third quarter 2003 results. Afterwards, Management will be available for a question and answer session. It is now my pleasure to turn the call over to Management. Mr. Barbosa, you may now begin.

Mr. Barbosa: Thank you very much, good afternoon, thank you all for attending this conference. This presentation today is divided in two major items; first I will comment on some performance highlights and then some comments on macroeconomic and business outlooks. Starting with the third quarter 03 highlights, this has been extremely good quarter for CVRD in terms of performance. In fact we had an across the board strong sales performance with a record top line reaching US\$ 1.483 billion - a 34% year over year growth; a quarterly record cash generation with our adjusted EBITDA, equaling US\$ 630 million - 21.2% year over year growth, it's a major increase and our bottom line showing a US\$ 468 million, accumulating this year US\$ 1.278 billion - a very strong performance in terms of the net earnings after nine months that compares... is a very close figure to the record registered in 2001 for the whole year when it reached almost 100... US\$ 1.3 billion.

As for dividends distribution, just last October 31st we paid a second tranche of the minimum payment of US\$ 200 million and also the additional tranche of US\$ 250 million

and in fact, due to the exchange rate variation we ended up paying more in US dollars than we anticipated, so we paid US\$ 675 million in total, adding US\$ 1.75 per share this year as a dividend distribution, compares very well to the average of the period 99/2002. Finally, just to remind you that our projects are on track and I'll comment a little bit later on that.

In terms of our sales performance the next line you see our sales iron ore and pellets 46.6 million tons and here we have a 3.4 million tons added by CAEMI; if we take out CAEMI 3.4 million tons, we would have 43.2 million tons, that's also a very good performance compared to the second quarter 03 - it's 4.1% increase - and compared to the third quarter of 02, when we had a very good performance, it was 2% above, in spite of the capacity constraints we faced.

In terms of gold the 77.6% reduction is in line with our expectations due to the sale of Fazenda Brasileiro and also the interruption of production in Fazenda... in Igarapé Bahia, last year. So, the reduction is very much in line with our expectations.

Manganese we had a very good performance as well, 11.7% compared to the same period last year and alumina we are recording the effects of not only the consolidation of Alunorte since the third quarter of 02 but also the increased capacity that started... which operations in Alunorte, with this additional capacity, the second quarter of 03; so the 7.47 thousand tons in the third quarter reflects now the current trend of production and we are producing slightly above the 2.4 million tons capacity of the Alunorte plant, so the plant is already fully operational in its expansion.

As for aluminum the increase in sales reflects the good position in the market and also some improvements in the operational capacity and the production capacity of our Albras plant.

Potash, the small... the reduction observed there, reflects the lack of inventories that we used last year but we don't have available this year. In spite that, we are operating the potash plant above the nominal capacity of 600 thousand tons, in fact we are operating at annual production of around 650 thousand tons, a very good performance, though.

As for kaolin, we have here the effects of the consolidation of CADAN, with 68 thousand tons, but even if we take CADAN out of these figures we would see a very good performance by the PSA in which in this quarter we present 114 thousand tons, so the PSA is operating in an annual sales performance of over 400 thousand tons - that could be a new record by year end.

As for railroad, again, a very strong performance, a new record and in terms of net ton per kilometer 7.4 billion in this quarter, a 10.9% increase over the same period last year; imports an additional 16.1%, a very good performance in all segments of business and you see the following chart, the quarterly performance of iron ore and pellets with our 46.6 million tons including, in green, you can see there the CAEMI production, 3.4 million tons.

The next slide shows you the general cargo business and our new record and you see that in all railroads we established... we presented extremely good performance, new records for the overall business of general cargo in CVRD and in the next chart you see

that the logistic service performance is decoupled from the Brazilian GDP growth rate; in fact, you see that unfortunately the Brazilian economy recorded downturn the second quarter of 03 and in the same period our general cargo business increased and reached a very strong performance a growth trade over 15% so there is a clear relocation or, in other words, we are capturing market share with our logistic service from other services being provided by other players in this market.

In terms of sales revenues and EBITDA, in terms of distribution by product, we keep counting heavily in our iron ore and pellets business, slightly over 60% of our gross revenues that reached US\$ 1.483 billion as I mentioned before.

I would like to highlight the performance of the aluminum chain with 16.4% of our total revenues and you see that is was a very... it was... it is in line with the additional capacity we have in both, in MIN and Alunorte this now much better reflect in our overall statistics; logistics 10.7%; manganese and ferro alloys, 5.5; kaolin, potash and other non-ferrous, 6%.

In terms of geographic distribution, Europe's still our largest market in terms of region, closely followed by Asia with 25.5% in total including Japan, China and emerging Asia and our domestic market in which about half of it, actually, we are selling to our pelletizing plant that will export the pellets of foreign clients and USA, 3.6%, still a small chance of overall revenues with the rest of the world, reaching 11.7%.

In terms of EBITDA ferrous-minerals is the bulk of our cash-flow generation, 7... almost 72% and here again I would like to highlight the aluminum performance - the aluminum chain performance, now with 10.3% of our EBITDA generation; logistics 8.4%, down from the previous quarter; non-ferrous and others 9.3%.

The next slide shows you what we see as a very strong and stable operational performance and you can see through the EBIT that presented further growth in the third quarter of 03 reaching 35% as compared with the 33.2% in the second quarter of 03 and compares to the 32.2% of the fourth quarter of 02; the high... the peak reached in the third quarter of 02 reflects, of course, the major devaluation of the currency associated with the volatility of the economic environment in Brazil in the international capital market.

And the next chart compares ourselves with our major competitors, we present our market capitalization as it was in October, 31st, with about US\$ 17 billion, of course below BHP Billington and ALCOA and we don't have the figures here for Anglo and Alcan, that are still ahead of us in terms of market cap and right by the side of this chart we show the net earnings of the third quarter - not all companies in the mining sector present quarterly results as we do - and BHP Billington with net earnings of US\$ 518 million and we presenting our US\$ 468 million, of course, we have a much lower cash flow generation than BHP presents, so a very good relative performance comparing the magnitudes of the flows involved.

And the next chart shows you our consistent strong cash generation that has allowed us to preserve a very strong balance sheet position and in fact in the last twelve months our adjusted EBITDA reached US\$ 2 billion and we had just a small contribution of CAEMI and FCA with US\$ 21 million, showing the increasing and steady growth of our cash flow generation in the last few quarters.

Turning to the investments, our total Capex program this year we already spent US\$ 1.5 billion; in terms of our projects we spent 41.8%; acquisitions we spent 33% of this total and staying business Capex, 25.2%. In terms of our growth Capex as we call, we spent US\$ 634 million and the large portion of these resources was allocated to the Sossego copper project with US\$ 234 million; Sossego, as we are expecting to be fully operational in commercial operation starting in the beginning of the third quarter of 04, it's slightly ahead of schedule. We also present our investment in the aluminum chain and the bulk of this investment in Alunorte is the conclusion of the third stage of Alunorte and the starting of the new investment in stages four and five. Paragominas is still a small portion of this total investment due to the delays we are facing in getting the license, the environmental license to implement the project.

In terms of wagons and locomotives, we bought already 66 locomotives and about 1.400 railcars until September, spending US\$ 82.8 million in total, in this activity.

In terms of our power plants, we spent 33. ... US\$ 32.6 million in Candonga and Aymorés; Candonga will be commissioned this end... by the end of this year in December and that's our best expectation right now and Aymorés was postponed for the third quarter of 2004. We are concluding the Ponta da Madeira, the third pier of Ponta da Madeira port with US\$ 9.6 million and we are of course investing in our new mine, Fábrica Nova, in Carajás, the brown field of expansion of Carajás, with iron ore; in total we are spending about US\$ 39 million. Mineral exploration out of our program US\$ 72 million, we spent already half of this total, US\$ 36,5 million and we are slightly behind schedule due to, again, to some environmental delays, licensing delays, that we cannot... could not implement fully as yet, but we hope that by the year end we'll have these problems solved, so we could put the mineral exploration investment back in track.

In terms of ...turning to the second section of macroeconomic and business outlook and you see the first chart of this section we are showing that expectations about the world economy developments are improving and JP Morgan global manufacturing purchasing manager's index is showing an upward trend; it's positive for the business as a whole.

And the next chart shows you that the contribution of the Chinese economy for the world's economy and particularly for the demand growth of the minerals and metals segment could be in a downward trend, although it continues to be extremely important particularly in the iron ore case, as you see in terms of the total growth of the global consumption for iron ore, the Chinese are contributing more this year than they contributed last year, but in the other materials there is a declining trend for the Chinese influence in overall demand; this could be indicating - that's our expectation - a more consistent growth rate for the world economy, given the very good... the very positive signs we are observing in the US economy, the Japanese economy and even in the European economic indicators.

The next chart shows you why this moment is very positive for the metals and mining industry because if we consider in a longer perspective, there was a trend to reduce investment in expanding capacity in the mining and metals industry and this is, of course, in line with the slow down of the world economy. This year is the third year in a row that we are going less in the long-term trend of 3.5 to 4% in terms of the world GDP, but the perspectives for the next year are much better but meanwhile the investment in additional capacity in the metals and mining industry and in the next chart

you see also in mineral exploration, was substantially reduced so there will be in our perspective, a combination of capacity limitation and strong demand growth resulting in shortages that would benefit, of course, the companies that are well positioned as we think is our case, in the metals and mining industry. We expect the Chinese demand for CVRD iron ore to remain very strong and in the case of the Chinese steel capacity we... according to the Chinese Iron and Steel Association, it should increase by 120 million tons by the end of 2005 from 2003, this is about four times the Brazilian steel production, it is amazing what is expected for the Chinese market the next two years, the next couple of years, and they will need high quality iron ore and fortunately CVRD will be very well positioned for that, and now with our commercial relationships enhanced by long term contracts and partnerships we have with the Chinese clients so... and finally, we think that the current problem of... the freight costs that are being observed will be solved by market dynamics through the increase of the supply of capesize shipping capacity in a few years.

Specifically in terms of the sea-borne trade, you can see in the next chart that China will continue to play a major role in the growth of this market. We expect a sea-borne trade for 2004 of 545 million tons - 5.8% above 2003 - with Chinese demand representing about 25.6% of the sea-borne trade. So its important ... sorry, 32% of the sea-borne trade with a growth of 25.6%, sorry about that. And we'll be very well positioned, we are increasing our capacity in the Carajás system, 14 million tons starting in 2004 and the southern system additional 3 million tons also in 2004; Fábrica Nova phase one, 10 million tons in 2005; Brucutú phase one, 12 million tons in 2006; Brucutú phase two, 6 million tons in 2008 and Fábrica Nova phase two, 5 million tons in 2009, a net addition of 40 million tons in this period, so it's a major contribution of CVRD to this market and of course we always have the flexibility to adjust Carajás production according to market demand.

Turning to the aluminum business, the next chart shows you the current status of the... the performance of export prices versus contract prices and of course, export market... export prices are reflecting the current shortage, but also in contracts we are observing a increase of prices even to longer contracts, this is very positive for our expansion of Alunorte that came in a very good timing and of course most of our production is sold through contracts, long term contracts, but we still have some production to be sold in the spot market.

The next chart shows you that the prospects for the aluminum prices have improved as well, it's a combination of reduction of inventories and a very strong GDP performance in the US market in particular, so we are observing a reaction of the three-month contract price as you can see there above the 1,500 level and the same time we are showing you that we have been able to increase the capacity of ALBRAS 430 thousand tons due to operational adjustments and improved efficiency of our plant there in **XXXX (25.40)**. And for 2005, 2004, sorry – 2004, we expect an additional increase of about 5% in the total production. As for copper, again very good timing for our project, our Sossego project, and prices reached levels over US\$ 2,000 per ton, or over 90 cents per pound and inventories are down and if you turn to the next page you see that the market is eager to get copper concentrates and thus we think that Sossego will start its commercial operation at extremely good timing with a synchronized world growth for the GDP and specifically some shortage in the copper market.

Thank you very much and now myself, Roberto Castelo Branco and Daniela Tinoco and Eduardo Duarte will be available for any questions you may have. Thank you.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question, please press the "star" key, followed by the "one" key on your touch-tone phone. To remove yourself from the questioning queue, press the "pound" key.

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

Finally, I would like to mention that today's conference call is being held exclusively for financial analysts and investors. We kindly ask reporters who may be participating in this conference call to please direct any and all questions to the company's press relations. Again, to pose a question press star one. Please, restrict your questions to two at a time.

Our first question comes from Mr. Alberto Arias with Goldman Sachs.

Mr. Alberto Arias: Yes, Good morning gentlemen and congratulations for the strong results. A couple of questions; the first one is with regard to market conditions ahead of the iron ore price negotiations. Do you see the demand trends in China and in the rest of the world continuing and how do you see the high transoceanic shipping rates having an impact on your competitiveness in delivering iron ore in Asia?

Mr. Barbosa: Alberto, thank you very much for your question. Well, we continue to see a very strong demand even coming from China, despite the increase in freight costs. Our president just visited our Chinese clients and in fact what happened there is that we signed additional contracts to increase the amount we have to deliver to them and so far the problem we are having, relates to the lack of production to meet our clients' needs. Despite of this issue of the cost of freights that, of course, is an issue but as we commented in our presentation market dynamics will solve that and as we used to comment in the previous quarters the cost of freight differential is rather an indicator of very strong demand and sometimes could be a lead indicator of price adjustments than potential problems with demand, so what we see is a very strong, a much stronger performance in terms of the world GDP growth combined with the maintenance of a very strong steady demand from our Chinese clients. There are no signs of deceleration there, as yet, and as we mentioned in our presentation as well, they are.... they may be increasing by almost 50% the production of steel in the next couple of years so there will be a lot of room for iron ore.

Mr. Arias: My second question is with regards to the comments you had on some environmental permitting issues that Paragominas is facing, if you could please elaborate on what are the issues and if this is going to represent any type of delay in the pipeline of the expansions for Alunorte and is this affecting any other projects like some of your copper of projects - you mentioned it had affected.... it was affecting some of your

exploration projects. Could you please elaborate on what's going on with the environmental permitting issues?

Mr. Barbosa: Ok, What happened in Paragominas that was a delay in the environmental license from the government of the state of Pará and then the rainy season started, so we will have to restart the project and the development of the mine by the second quarter of 04, so this is a delay of about four to six months or so, roughly, and as the expansion of Alunorte has a longer timeframe there will be no consequence for the starting-up of the joint operations in Paragominas and the new expansion of Alunorte, in our view.

Mr. Roberto Castelo Branco: I would like to stress that even if we started developing more Paragominas on April 2004 we'll be able to start up the production of the stages four and five of Alunorte in the first quarter of 06.

Mr. Arias: OK. Is it affecting any other project, like the copper project, are you seeing some of these environmental permitting issues affecting anything else?

Mr. Barbosa: No, Alberto, just this one and it's... as I commented today in the press conference, we have several projects going on at the same time and this is a routine for us and of course it's an important project and as we have a very good reputation in track records, we anticipate no problems, it's simply bureaucratic delay that we hope to solve very soon.

Mr. Arias: All right, thank you.

Operator: Ladies and gentlemen, please restrict your questions to two at a time. Our next question comes from Mr. Sebastian Luparia with JP Morgan.

Mr. Sebastian Luparia: Yes, good afternoon Fábio. Can you please comment on your tax rate .Can you comment on what we should expect going forwards?

Mr. Barbosa: Thank you Sebastian, well, the tax rate this year, if you look at our income tax line you see that we had a disbursement in the second quarter that was around US\$ 100 million due to some discussion we had in the courts with the internal revenue services and then after the decision we have to collect this amount. So, if you take out this provision we would be paying around RS\$ 200 million in terms of income taxes this year, it's about US\$ 60/70 million or so. Going forward, we think that as we are growing in terms of volume of sales, that we could have a marginal increase but nothing that could affect the overall performance of the economy... of the company.

Mr. Luparia: Ok, thank you. And my second question is also related to shipping rates; I know you gave a very good explanation in the press release, but if you look to the differential between shipping rates and iron ore prices and is also at close historical high;

how are you considering the possibility in which China start to substitute iron ore imports by other higher value added products? If they start to increase the imports of steel just to have a better relationship with the costs for them not to import that products?

Mr. Barbosa: Sebastian, it's as we use to say, the iron ore supply is a long term relationship and fortunately for CVRD, we have the quality that ensures a very good market share, of course, associated with a commercial effort we keep on the ground with our Chinese offices in Shanghai and Tokyo and other efforts. Our president visits our clients on a regular basis, so we have a long term relationship, joint ventures with them, and if you recall we also have this sort of relationship with our Japanese clients, so it's something that doesn't change overnight and as we can see by our Japanese experience and the other side of the question you put, that the market for shipments, the cost of freight is already determining a major increase in production and you can see the Asian shipyards are fully loaded with ships in construction and as we put in our press-release an additional 35 million... 35 new cape size ships will be in the market very soon, so the market will adjust in this side, but the price formation in the iron ore market is different, the relationship is different, the cost of freights, the freights are a commoditized service, iron ore is not, so I think this is a major difference one should take in account and we do believe that our clients have the same approach because, again, we didn't start yesterday, we have been there for over five decades.

Mr. Castelo Branco: And, Sebastian, I would like to stress how important are the long-term contracts with the Chinese clients. Currently we have a relationship with 25 active clients in China covered by long-term contracts. Once you have a long-term contract you are able to optimize the steel value chain, so it's very difficult for a client to move to another supplier that has not the product which is suitable to it's blast furnace, so it's a major competitive advantage and as Fábio was mentioning, there is no iron ore available in the world at least at a reasonable coal quality to meet the demands from the Chinese steel makers and the domestic market, the cost, the FOB cost at the mine for the Chinese iron ore is US\$ 50 for a very poor quality product, so we are not concerned, at least in the short term, with this problem created by the high freight rates.

Mr. Luparia: Ok, great. Thank you Roberto, thank you Fábio for the explanation.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Manoel Salazar with Santander.

Mr. Manoel Salazar: Yes, good afternoon, gentlemen. Two questions, here. The first one is if you could give us an indication of third party purchases in iron ore and second if you could give us an idea of what the mix of ore to pellets is to China, if they are demanding pellets at all?

Mr. Barbosa: OK, thank you for your questions. As for your first question, the third parties; up to September the third party acquisitions amounted to 7.2 million tons and

our best estimate now is that it will reach what we anticipated in the previous discussions we had with you, about 10 million tons for the whole 2003. As for the Chinese demand, we sell mostly... we sell fine and the pellets are supplied mostly by Samarco, OK?

Mr. Salazar: OK, Thank you.

Operator: Our next question comes from Ms. Paula Bugia with Schrodgers.

Ms. Paula Bugia: Yes, good afternoon, I have two questions, the first one is if you could be more specific on the contracts you have with the Chinese, I mean, what's the percentage and what other kind and if that includes expansion and my second question is on you press release you mentioned part of your logistics good performance is explained by the steel industry but if you expect the steel industry to reduce the export ratio next year and if you would be able to replace these clients with other sectors?

Mr. Barbosa: Thank you very much Paula. In the first question, if I detected correctly what you asked, all our sales are through contracts and they range from 3 to 20 years and we are trying to establish now longer term contracts and what I mentioned is that in the visit of our president in China there was discussion about additional supply of iron ore through long term contracts to our Chinese clients, OK?

Ms. Bugia: And what percentage of your sales to China, are through long-term contracts including the expansions that are you planning?

Mr. Barbosa: 100%, Paula. OK?

Ms. Bugia: OK.

Mr. Barbosa: And your second question, could you please repeat it, please?

Ms. Bugia: Yes. In the press-release you mentioned that part of logistics good performance or growth in volumes was explained by the steel industry, however it is possible that the steel industry will reduce the amount of exports, because they would supply more to the domestic market and I was wondering if this would imply lower volumes for your cargo business and if you could replace that with other sectors?

Mr. Barbosa: No, Paula, we are having precisely the problem the other way around; we are having the same supply constraints in terms of logistic service, if we could compare, as we do face in terms of iron ore business, in other words, we are having to select our clients because we don't have enough logistic capacity to meet all our clients' demands. Of course we are expanding and I can assure you that the demand is well beyond the supply capacity we have right now.

Mr. Castelo Branco: And our logistics operations are not depending on steel exports because, as you know, Brazil is an importer of coal, so we transport coal from the port to the steel mills and we transport steel products inside the country, for instance, when CST started producing hot rolled coils, we started a program to transport this product HRC from the CST plant at Tubarão to São Paulo to the domestic market, so we are not depending on steel exports for growth and you have several other sources of growth in the logistic business, in the agricultural business mainly with soy beans, in the duty materials industry inter modal transportation with several products like auto-parts, cars and so.

Ms. Bugia: OK, many thanks.

Mr. Barbosa: Thank you.

Operator: The next question comes from Mr. Daniel Altman with Bear Sterns.

Mr. Daniel Altman: Hi, congratulations on the great quarter and very good disclosure in your press release. Two question; one is on the alumina business; I guess on a annualized basis you are running about 20% above of your nominal capacity of 2.4 million tons. Is there an explanation for that? I guess, how do you explain that, would be the best question and the second issue is when you were in New York recently you talked about a series of foreign projects that you're looking at, Mozambique, Chile, Peru, etc, I was just wondering if those plans may change now with the BNDES **XXXX (45.22)** controlling shareholder group?

Operator: Mr. Fábio Barbosa, please go ahead.

Mr. Barbosa: Well, sorry Daniel for the interruption, it was not me I can assure you.

Mr. Altman: Well, maybe the BNDES.

Mr. Barbosa: I don't believe that as well, well, we'll try to recover the full line here, but in your question, we are actually, we are operating, we are running at 100, almost 200 per month, slightly over 200 per month. We are right now sort of testing the capacity of the plant. We are intensifying our efforts trying to enjoy the good market momentum but at the same time testing the equipments; of course, the nominal capacity we are counting is 2.4 million tons per year but if this sort of testing we are taking now proves consistency, we can, over time of course, reassess our nominal capacity to a superior level, but right now you should count only on 24, or 2.4 million tons per year.

Mr. Altman: OK, I'm not sure if you heard my second question?

Mr. Barbosa: No, I didn't.

Mr. Altman: Ok. I kept talking I didn't hear any response. Now, my second question was when you were here in New York you talked about a bunch of projects, foreign projects that you are looking at in Mozambique, South Africa, Chile, Peru, etc and I was wondering, with the return of the BNDES into your controlling shareholder group if you think that projects outside of Brazil will be shelved?

Mr. Barbosa: Will be what? Sorry?

Mr. Altman: Will be eliminated ...

Mr. Barbosa: No, Daniel, we have been looking around the world for growth opportunities in several countries as you mentioned, we are present in Chile, in Argentina, in Peru, we are present in Gabon, we are studying Mongolia, so we are everywhere and we signed, a few months ago, it's important to mention, a memorandum of understanding to explore potential investment alternatives in Mozambique and this was signed a few months ago and we are looking there as we looked all other investment alternatives, with discipline, extremely careful and the fact that we have a stronger participation of a shareholder does not mean that the strategy will be changed; our strategy was approved by our shareholders, it's being implemented and we believe that is ... Can you hear me, Daniel?

Mr. Altman: Yes, I can.

Mr. Barbosa: We believe that this strategy has been recognized by the market and there is no reason to change. So, we keep looking around and investing when we think it's appropriate.

Mr. Altman: OK, thanks very much.

Mr. Barbosa: Thank you, Daniel.

Operator: Our next question comes from Mr. Jorge Beristein with Deutsche IXE.

Mr. Jorge Beristein: Hi, good afternoon Fábio, again congratulations on the strong result. I have two questions; the first is if you could just clarify what was the amount of third party volume sale done in the third quarter of 02, so I could do a year on your comparison?

Mr. Barbosa: Well, Jorge thank you very much on you question. Last year, if I'm not mistaken, the total... the total acquisition from third parties was about 7 million tons and it was mostly acquired in the second half because the usual volume is about 2.5 to 3 million tons per year for blending purposes as you know, so the extra - and this coincides with the very strong performance of the sea-borne trade in the second half -

was, let's say, out of the seven, maybe 5 million tons in the second half of the last year, that could be more concentrated in the fourth quarter than in the third quarter of 02, that's ... I'm just giving you some guidance, I don't have the actual figures here with me.

Mr. Beristein: Well, when you do get them would you mind just e-mailing those to me?

Mr. Barbosa: No problem, I'll do that.

Mr. Beristein: My second question was just trying to find the, or understand the impact you mentioned in your press release, again which was very detailed, I appreciated that, something what about US\$ 50 million of delayed pricing which was carried over from the first half because it was a retroactive price increase and I'm just trying to understand; are those 50 million - did that hit your third quarter results at a 100% EBITDA margin, because it was all a deferred price increase or was that also on an accounting basis pro-rated properly? Just I'm trying to understand the sharp hike up in EBITDA how much of that was a one-up and how much was recurring?

Mr. Barbosa: Let's say US\$ 58 million, they do not belong to the third quarter so you have to take them out in order to calculate the extra results.

Mr. Beristein: So, what I'm asking is: are those US\$58 million were they booked at 100% EBITDA margin in the third quarter?

Mr. Barbosa: Could you repeat, sorry?

Mr. Beristein: The US\$ 58 million, was it booked at 100% EBITDA margin?

Mr. Barbosa: Sorry, Jorge, I have some hearing problems here on the phone, could you please again ... sorry about that. The 58 million ...

Mr. Beristein: OK. If you try to normalize the third quarter results, would it be correct to subtract US\$ 58 million which was EBITDA derived from the first half price increase, is that a correct assumption?

Mr. Barbosa: Let's put it this way - again we have problems here with the equipment - but the overall effect for this year for the price increase, Jorge, as you know the European clients they get the price increase retracted to January, 1st and our Asian clients to April, 1st, the overall impact of the 9% increase average of our prices would be around US\$ 200 million this year, including the effects retroactive to the first half of the year to the European clients and in the second quarter of the year to our Asian clients, but I don't know if it answers your question ...

Mr. Castelo Branco: Jorge, answering to your initial question, till the third quarter 02, acquisition of iron ore from small mining companies was not an issue and we acquired only 1.4 million tons. The acquisition of more substantial amounts starts in the fourth quarter 02, when the situation of excess demand in the sea-borne trade arises more substantially.

Mr. Barbosa: But Jorge did you get the issue of the EBITDA for the price increase or not? Do you want to make it more clear?

Mr. Beristein: Maybe I'll just follow-up after the call, I don't want to take a disproportional amount of time. Thank you.

Mr. Barbosa: Thank you.

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

Ms. Katie Blacklock: Hello. My question relates to the iron ore and pellet pricing: you talk about a pellet price of US\$ 36.64 on average for the quarter. Looking at the revenues from pellets and the volumes, that would imply a price of US\$ 37.40 and likewise there's a small discrepancy on the iron ore price: does this relate to that US\$ 58 million in revenues that has been booked in this quarter relating to the price increases that have been put in retroactively or is there some other reason that there is a difference?

Mr. Barbosa: No, you are right, it's the adjustment for the retroactive effect.

Ms. Blacklock: OK. I have just a second question on the aluminium side. Again on aluminium the implied price would be US\$ 1,500 a ton against your stated price for the quarter, US\$ 1,407 a ton. Can you just explain the difference there and if is near the 1,500 that would suggest that alumina is now pricing down a 13% of aluminium against the 15% that we've been seeing for the first half of this year? Is that a trend that you would expect to see through the balance of the year?

Mr. Barbosa: Well, thank you Katie again. Well, we're expecting the aluminum prices to follow through the new... the perspectives of the world economy, in fact they are showing rising trends and we expect our revenue to reflect that, as well as the slight increase in production as we commented.

Ms. Blacklock: OK. Going back to the discrepancy between the stated price of US\$ 1,407 a ton and the implied price of 15 Dollars... US\$ 1,500 a ton; could you just explain that difference using the 81 million in revenues from aluminium and the 54 million metric tons?

Mr. Barbosa: Katie, I have to check that to give you a precise answer, if you don't

mind, OK?

Ms. Blacklock: OK. Fine, thanks.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Thomas de Melo e Souza from Merrill Lynch.

Mr. Souza: Good afternoon gentlemen, I have two questions: first one, could you elaborate on the outlook for FCA especially because it appears that the company is reporting significant losses on the operational cash-flow line?

Mr. Barbosa: Well, thank you Thomas. On FCA we just concluded with capitalization and, in fact what happened is that the concession cost is too high, so we are analyzing alternatives that we have to wait for the authorization of the ANPT for the increase in participation of CVRD in the capital of FCA - that was granted just last September and now we are analyzing in which way we can optimize the capital structure of FCA, given the negative impact it had on the EBITDA figures, as you saw in our press-release, it was US\$ 6 million reduction in the third quarter, so, that's what we have been analyzing right now but we haven't taken any decisions as yet.

Mr. Souza: So we should expect around eighteen ... US\$ 40 million in EBITDA reduction in the fourth quarter?

Mr. Barbosa: That's up to you, you have to make your own projections and you are certainly very good at that, but we are looking at the problem in a more structural basis as we tried to show in our press-release, the general cargo business is growing very fast, it has a structural deficiency of capital that we are trying to solve but it has been growing at rates above the GDP growth rate in the last few years, has a very good margin and it simply has a weak capital structure that should be addressed in the future.

Mr. Souza: Is there any way you can disclose FCA income statements so that we can project better, the improvement that might occur with the reduction on the concessions?

Mr. Barbosa: We can try to improve the disclosure of information of FCA, we made a major effort this month to consolidate this press-release but of course there is always room to improve the way we present our information and this could be an alternative to give better information to the market.

Mr. Souza: And my second question, Fábio, relates to capital expenditures for this year, excluding acquisitions, they are running substantially below budget and I'd like to know where you expect for your Capex to be at year end and possibly if you could give us a sense of net debt expectations as well for year end?

Mr. Barbosa: Well, we have a strong execution normally in the second half of the year and I think that it's still a little bit early to say there will be a major discrepancy between and what we said that we would stand in terms of capital expenditures, if you look at the figure that we announced in the beginning of the year and the final figure that we are going to present, is a similar concept because the US\$ 1.8 billion included same business and projects of other companies that were not consolidated fully in USGAAP but, anyway, you are right, we are slightly below our initial projections but still I can't tell you by how much this will be, due to the stronger execution we usually observe in the second half of the year. As for net debt, this October, this month of October we had the payment of our dividends to our shareholders - that would be consuming our cash position and we should get close, we should have a smaller liquid asset position by the end of the year as we are not planning as yet going to the market, the international capital market, but a comfortable position in terms of net debt and debt to EBITDA, as we are going to add more flows of CAEMI and FCA altogether.

Mr. Souza: OK, excellent, thank you very much.

Mr. Barbosa: Thank you.

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

Mr. Sora: Hello, congratulations on the good results. I have two questions; one is regarding the volumes of pellets: the last quarter, last year you delivered more than 6 million tons of pellets and then the number dropped to 5.5, 5. ... that was the number of this quarter. What's happening in terms of volumes for pellets, considering the tightness of supply and demand in the market? Why you are not increasing significantly your delivery of pellets and the second question is regarding SG&A, that significantly increased this quarter it used to represent 4% of your net revenues in the first quarter this year, dropped to 3.8 in the second quarter, now came up to 5.2% of revenues. I would like to understand what's happening on SG&A.

Mr. Barbosa: Thank you very much for your question. As for your question on pellets, actually there is a reduction compared to the fourth quarter of 02 but there is a bit of increase compared to the third quarter of 02 - on a seasonal basis there was a major increase there. Pellets, as you know, they are more demanded and the markets are more tight, and as we have been seeing throughout this year the pellets production and sales have been performing extremely well on a sustainable... on a sustained basis since the beginning of the year, of course, with some seasonal adjustments in the second quarter, for instance in 03 it was 5.2, but now we went up to 5.5 so we think it's a good performance and there is no... and one could not say, it's our perception, that one could not say this has a sign of decelerating demand for the iron ore market.

Mr. Castelo Branco: I may add last year under the USGAAP method we sold 17.9 million tons of pellets; this year for the whole year, this year, for the first nine months of

the year, under the USGAAP method we sold 16.8 million tons; so, for the whole year it's very likely that we are going to sell more than 20 million tons, so registering an increase year over year and the fact is that our pellet plants of our joint ventures are operating at full capacity and there is regularly when the demand is weak for the pellet plants, we have two options: to shut down the pellet plants, that is, all them are working at full capacity and the second one is to buy pellets from the JVs to sell to our clients because our partners are not demanding pellets. The situation now is that they are filling all their stake in the pellet plants and there is no room for buying pellets, more pellets from the JVs to meet the demand of our clients. If we look to our JVs or other JVs, GWIC and SAMARCO, all of them are selling much more pellets than they sold last year so there is no weakness in the demand for pellets around the world.

Mr. Barbosa: And as for your second question, on SG&A, it's basically the increase in the sales expenses, it's about US\$ 18 million in the single item, then we have the consolidation of FCA and CAEMI in the total figures of SG&A. That would explain the changes there in our press release.

Mr. Sora: So, this level is recurrent.

Mr. Barbosa; Well, yes.

Mr. Sora: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Alberto Arias with Goldman Sachs.

Mr. Alberto Arias: Yes, just a quick follow-up on the consolidation of your subsidiaries. There was a lot of talk when you acquired Ferteco and CAEMI and FCA of operational synergies that you were going to extract. If you could please update us in terms or where are you in the structure of those synergies and what's further to go if you could quantify any cost reduction opportunities that will come from synergies going forward?

Mr. Barbosa: Thank you again, Alberto. FCA, I think the major synergy we can get now is that we can optimize its capital structure; that was not possible to do in the previous shareholding structure. You saw that just last Friday we announced the conclusion of the transaction with CSN in which we sold our stake in Sepetiba take on and CSN, the north-eastern railroad and we bought the amount of FCA; now we have 99.99% of the total capital. So FCA we can think now of a structural adequacy of the capital structure that we could not think before. As for CAEMI, we always said that the synergies we wanted were mostly related to the Ferteco acquisition and Ferteco acquisition... the Ferteco synergies, we just concluded the incorporation, the full incorporation of Ferteco the last month of August, and the synergies are already being captured, that are over... on a net value basis, they are over US\$ 100 million.

Mr. Arias: OK and just one final question on the power rates in Brazil. You have to renegotiate your power contracts with Eletronorte for Albras and that's been an ongoing issue very important for the aluminum sector. Where do you see the power rates going and are you close to finalize some definition on those contracts?

Mr. Barbosa: Well, no, we are not closed yet, although we continue to be modestly optimistic about the possibility of reaching an agreement with the government on the new contract. I think it's just logical, you see, we have the bauxite, we have very competitive alumina refining capacity and potential expansion and we also have energy, so it's just a matter of getting an agreement that is reasonable and satisfactory for both parties and I believe that it's still possible. Meanwhile we keep looking at opportunities, alternatives to provide this energy, but frankly I do believe that we'll be able to reach an agreement on that.

Mr. Arias: Right, thank you.

Mr. Barbosa: Thank you.

Operator: Our last question comes from Mr. Fritz von Carp from Sage Capital.

Mr. Fritz von Carp: My question has been answered, thank you.

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

Mr. Barbosa: Again, I would like to thank you all for attending this conference and we, as usual, will be available for further questions if you may have them, you can call myself or my colleagues here, we'll be ready to try to answer your questions. Thank you very much and until next time.

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