



Transcrição da Teleconferência Resultados do Terceiro Trimestre de 2004 12 de novembro de 2004

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

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

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

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

Before proceeding let me also mention that forward-looking statements are being made under the safe harbor of the Private Security Litigation Reform Act of 1995. 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 this afternoon in Rio, is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. Mr. Barbosa will comment on the Third Quarter 2004 results and afterwards, management will be available for a question and answer session.

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

Mr. Barbosa: Good afternoon, ladies and gentlemen, it's a pleasure to be with you today. We will comment on the third quarter results and we also have some other information to provide to you. Today's presentation is divided in three sections. First, some highlights of our performance, then, recall in more details our results, and then some perspectives for business in the near future.

In terms of our performance in the third quarter, we believe that it is actually an outstanding one, we break new records, we posted a very strong cash flow generation and I believe that on consolidate the perception that the Company is in the right track. At the same time the fundamentals of the market have been extremely good and as we put it in our presentation we believe that the current cycle is one of the strongest since the late 19th century! And the US economy was growing very fastly and then, after this boom in the late 19th century we had, just after the Second World War the reconstruction efforts in Europe, basically Europe and Japan.

So China is, I would say, is performing the role that these two major players in the past have performed, and so this is a very good momentum for our business as a whole.

At the same time, the Company, we believe we have a good strategy execution, so we are able to capture most of the value that there is in this current position; a disciplined capital management that has been more in the last few years and will continue to be very disciplined in terms of investment decision, that you have been following, and finally, a very powerful cash flow generation combined with sound and prudent financial policies that allowed us to have a very healthy balance sheet.



Coming to our performance itself, the next section, you see that in the third quarter, sales continue to show a very strong growth fast: iron ore and pellets, we reached 60.4 million tons in the third quarter and in the first nine months of the year, we almost reached on 70 million tons, so a remarkable performance in almost all our lines of businesses there. Manganese and ferrous alloy, with a very good performance as well, enjoying a very positive momentum of the market, with very high prices for ferrous alloy, for instance. Bauxite, alumina and aluminum, a performance that is also in line with our expectation, or slightly above. Copper concentrate, for the first quarter we had a full effect of the production of copper, although as we are still in the ramp up process, below the maximum capacity of the long terms. Potash, we had a good performance, considering that we are in the effort of expanding our capacity to 850 thousand tons by mid 2005 and this process, investment process, brings some disruption in the production in that mine. Kaolin, almost 900 thousand tons for the first nine months of the year, we are consolidating our position as one of the three largest players in kaolin business in the world. And about logistics, railroads and ports, presented a very strong performance, as I will detail later on.

In terms of our gross revenues, we reached, in the first nine months, US\$ 6 billion; if I'm not mistaken this is the total revenue for the full 2003, but we still have, as you know, three months to go.

In terms of products we have in the ferrous division, iron ore, pellets, manganese and ferrous alloy, about 68% of the total revenues; aluminum chain, about 15% and logistics, about 11%; copper and potash, another about 6%. So this is a very increasingly diversified revenue profile.

In terms of Geography we had, in Asia, about ¼ of our total revenue; of course, China is as a country, individual country, the largest market for CVRD; Europe has the largest market share in terms of our total revenues, with almost 32%; Brazil, including the sale of pelletizing plants, 28%.

In terms of our main business, iron ore and pellets, again we consolidated our growth; 60.4 million tons in the third quarter of 2004, is by far the record of our history and about 159 million tons, in the first nine months of 2004. The comparison with 2003 in the first nine months, it should reflect also, the consolidation of Caemi, that we started to do in the third quarter of 2003, but started in September, so there is some extortion there of consolidation, the Cofins consolidation but it's clear: our very strong performance even with the deduction of this effect.

In terms of our logistics business, our general cargo, the performance was very good as well; it's almost 8 billion net tons per kilometers in the third quarter of 2004 and the accumulated figure for 04 is almost 22 billion net tons per kilometer, a growth of about 10% compared to last year. In this particular case, in general cargo as we have been commenting with you in the last few years, the constraint year is not in the demand side, this business has been growing about 10% a year in the last four years, well above the GDP growth rate. The constraint here is the availability of equipment. So we are buying this year about 3.3 thousand, 3,300 rail cars, and about 88 locomotives, in 2004, to have capacity to transport iron ore and other cargos, sometimes for third parties. And next year our intention is to order, to buy about 6 thousand rail cars and 120 locomotives, both new and used because we don't have locomotives available. Actually we are trying to find locomotives to complete our fleet, given the very strong demand, not only in iron ore but also in our general cargo services.

In terms of the EBIT, a new record was reached, US\$ 886 million and the margin was slightly lower than the second quarter that was a remarkable performance we had there, it was a record that we achieved by then, but then we had some appreciation of the Real and some costs added to our structure, so we had about 41% of credit margin, but overall, our operational

performance has been extremely good if we compare what happened in the first nine months of 04. In the ferrous mineral division, the EBIT margin was 500 basis points over what happened in 2003, the whole 2003, in spite of the appreciation of the currency, as I mentioned to you before.

Logistics have improved, it's about 200 at this point in terms of performance and the aluminum here, it's, of course, reflected in the consolidation of Albras that is also enjoying a very good market momentum, as you all know.

In terms of earnings performance, in spite of being among the companies that report quarterly, the second that is in this chart there in our presentation, by September the 30th 2004, our market gap was around US\$ 25 billion, 4 billion behind Alcoa and we were the second one and then in terms of net earnings we were by far the top performance with US\$ 943 million. Even if you take out the extraordinary gains of CSC sales you will see that our performance was more than the double of the second performance that was XXX according to our indication here. So very good earning performance, indicating a capacity to capture the value of our shareholders with a very sound and positive scenario that we are observing right now in terms of the fundamentals of our market.

In terms of EBITDA, for three quarters in a row, we showed a growth and now we reached the mark of about 3.3 billion, US\$ 3,289 million in the last twelve months and it's a remarkable performance if you consider that just two years ago, in the third quarter 2002, it was about half of the current figure posted in our statements; so, US\$ 3.3 billion that is a very strong performance by any sort of parameters.

At the same time we are growing size, we are becoming more diversified and pursuing very good opportunities to grow in other business areas like the non-ferrous and logistics and aluminum of course. But in the first quarter 02 our EBITDA was US\$ 397 million and now we posted US\$ 1,007 billion, so 2 ½ times the EBITDA figure of just 2,5 years ago. But in this period ferrous minerals became less important, it's of course very important with 72% of the total EBITDA generated that's a very good margin, as I just commented with you, but aluminum chain, as we are not only able to consolidate Alunorte and Albras in our figures, but also the very good performance of the companies Albras and Alunorte and the growth of Alunorte with expansion of the third stage, reaching 2.4 million tons of nominal capacity and Albras with a marginal increase of its nominal capacity. So, very good performance in the aluminum chain.

Logistics, with its growth, it's important to call your attention that logistics, general cargo, the only we are commenting on, in spite of the growth of the EBITDA logistics, not only managed to keep its share but increased it a little bit to 10%, so its showing a very good performance that was possible to achieve in this segment of business. Of course we still have a lot to do in this area in terms of improving margins but I would say that it's becoming more and more evident the importance of this line of business in our total portfolio.

In terms of investments, our Capex reached almost US\$ 1.3 billion and here I would like to emphasize what it's written in our report is that we are using preliminary data because we are in the process of implementing the enterprise resource planning, so this data may be adjusted, but, anyway, they indicate that we are very much in line with our annual figure of US\$ 1.8 billion until December. We also delivered this year four major projects, in Ponta da Madeira Port; Carajás at 70 million tons, actually is running now at 73 million tons trend in these last three months; Candonga part land; and Sossego mine and the copper mine that started operations in June. The other projects are very much on track, on the expansion of iron ore, Fábrica Nova; Carajás, Brucutú, Fazendão and Itabira. In the aluminum chain, Alunorte stage 4 and 5 and Paraguaminas 1 are going well; potash we are almost concluding the expansion, it is expected to be operating by the second half of 2005 and Aimorés and Capim Branco 1 and 2. Aimorés



early next year, may be operating already and Capim Branco 1 and 2, in 2006... business Capex of US\$ 472 million.

This very aggressive Capex program, is combined with very good return on invested capital, as you can see in the next chart, with the first nine months of 2004, the return reached 35.2%, a very good rate, Caemi standard. And allow us to pay this very good cash flow generation combined with this performance, allows us to pay what we think is a good dividend to the shareholders, In 2004 we paid the equivalent to 0,68 cents per share and the dividend growth is remarkable; in 2003 compared to 2002, 12.1%; in 2004 against 2003, 15.7%. Again we see that as a unique dividend policy in Latin America and very few companies are able to announce in the beginning of the year what will be the minimum payment to our shareholders and we have been doing that for two years in a row now; last year we announced US\$ 400 million and we ended up paying US\$ 675 million; this year we announced US\$ 550 million and we ended up paying about US\$ 800 million. So this is possible due to the nature, the very sound cash flow generation that allow us to combine the aggressive Capex program with nice dividend payments and a very sound balance sheet as you can see by the indicator that we show in the next chart.

A further improvement in our financials was achieved in the third quarter with the last twelve-month EBITDA been able to cover about 13 times the short-term interest payment, so it is almost double what it was about two years ago, three years ago when it reached 7.6 times. And total debt EBITDA reached all time low, 1.3 times, given now very strong performance in terms of EBITDA in the next few months.

Turning now to the outlook of our business and how we see our performance in the near future, we believe that, again, we are living a very denying scenario, a very denying environment with world GDP growth reaching 5% per year, now converging to some 4,5% this year. The global purchases managed in the field mines, showing a very strong position as well, well above 50; GDP growth, as I mentioned before, this year 4,5; 2005, 4% and then 2006 around the long-term trend of 3.6%, meaning that the strong demand should continue in the next couple of years or so. In the case of China all of the indicators showing what could be a soft landing by the Chinese standards, they keep growing in a very strong rate compared to Western standards but it's in a more modest fashion compared with what was a few months ago.

So fixed assets investments growth rate was sharply reduced as well as growth in bank credits, given the market control that was established few months ago. But in our view China should post a very high growth rate, 9% this year and our forecast for the next couple of years is 7,5 and 7% respectively, so more modest growth but still a very strong performance of the world drivers in this mineral and metals market.

In terms of steel consumption, the world steel consumption, again driven by China, it should show a very strong performance next year, 5.1%, and China should grow at 10%, more than 10% in terms of these indicators, showing that additional demand for iron ore will be there. And this is reflected in the growth of the sea born trade that we're expecting to reach 630 million tons next year; we revised our estimate for this year sea born, to 595 and China imported 151 million tons of iron ore in the first nine months of 2004 and most likely it will achieve total imports of 195 million tons this year. That's almost 50 million tons more than what was imported in 2003, and just for the sake of comparison, 14 years ago (1990), China imported 14 million tons only, so it is actually a remarkable performance. And next year China imports should reach 225 million tons, if they grow their imports only by 30 million tons.



In terms of the aluminum businesses, the aluminum chain, inventories kept declining in the last few months and prices are reflecting the very strong demand, growing at almost 10% per year and prices reaching over US\$ 1,800 per ton.

We believe that the global deficit should remain for 2005, even if we made it 700 thousand this year and 400 thousand for 2005. Then for alumina, after some correction, price correction after the share, the percentage of XXX price are reaching almost 30%, it was a very, very sharp correction. It went down to about 18% and now it's back to 22/23% and in spite of this correction, we believe that the market will continue to be tight.

In copper you see in the chart that is being presented to you that total inventories are on a very low level and in spite of increasing supply of some other players, the fact is that the market should continue to be tight for the near future. So as we put there the low inventory level give support to next year prices to remain as attractive as they have been in the last few months.

That is what I had to tell you in the first initial part and I will be, of course, available for questions, go ahead. Thank you very much.



Sessão de Perguntas e Respostas

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, please press *2

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.

Operator: Our first question comes from Alberto Arias from Goldman Sachs. Please go ahead.

Mr. Arias: Yes, good morning Fabio, congratulations on the good results. The first question is: with the market conditions of iron ore and your cash flows, I would assume that you’re trying to optimize production, as much as possible. Could you give us some guidance in terms of the volumes of production of CVRD that you are expecting for 2004 and 2005, just to get a sense of what the result of that optimization process?

Mr. Barbosa: Ok Alberto, thank you very much for your question. In terms of our production this year in the US GAAP consolidation criteria we should reach total sales of 205 million.... 220, sorry, and production of about 205 million tons of iron ore and pellets. For next year it’s reasonable to expect a growth of about 10% of this total, about 20 million tons of additional volume for iron ore and pellets.

Mr. Arias: Would that include the purchase from third parties?

Mr. Barbosa: No. That will be only our production.

Mr. Arias: Ok, great. And a follow-up question with regards to the treat that we had on July to Carajás: there was some talks about potentially expanding Carajás to 100 million metric tons and I think it has not been approved by the board, but if you could tell us when is the board going to be considering that original expansion to 100 million metric tons of Carajás?

Mr. Barbosa: That should be in the next few weeks, Alberto, either this month or the following month. I would say that’s a decision that we will take on a very short term.

Mr. Arias: Ok, great. Thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question, Mr. Arias. Our next question comes from Daniel Altman of Bear Stearns.

Mr. Altman: Hi, good morning. Two questions, please. First there’s been a lot of announcements coming out as Australia, I guess FMG in particular, also in Brazil, CSN, regarding further advancements in their expansion projects for iron ore. I’m wondering how seriously you take this new competition and if in your internal supply and demand forecast, which I guess covers your new projects announcements for iron ore expansions, are you considering both of these companies as, you know, potentially new competitors starting in 2006, 2007?

My second question is just regarding the logistics business. You mentioned that you’re achieving 10% growth and that was less than demand, so a supply constraint. I’m wondering if in 2005, if you can grow the business at a higher rate, given the increased investment that you’ve made in new equipment. Thanks.



Mr. Barbosa: Thank you very much, Daniel. Your first question, of course you've been seeing a lot of announcements of investments, some of them may go ahead, some of them will not, but there are a lot of constraints expanding capacity for the major players and even for potential newcomers to this market. Ourselves, we are working very hard to expand our capacity and we have several projects that could reach our total capacity, could be lifted to up to 100 million tons from the current 200 million tons that we have; so we would be producing around 300 million tons in the next few years. This is the size of CVRD's production, so the new players you commented here, is a very small fraction of additional capacity that they could bring in the market, in our view. If they manage is to invest, in the case of CSN, they have already clients for the iron ore they sell, it's around, they produce around 50 million tons and if they expand their capacity they will be considering the sea born trade, a very marginal increase, the size of the sea born trade will mean that CSN expansion should be presenting a very marginal increase in the total market. As for the XXX, it's about the same in a different scale but it's about the same rationale and, of course, there's a major interrogation mark regarding what would be, the Capex cost of this investment.

Turning to your second question on logistics, we have been getting the rail cars and locomotives gradually over the year. So in a twelve month basis we should, if we are not buying any new equipment, show some growth next year, but we not only will have the continuous addition to our fleet but also the effect of the previous investments in the growth of our logistics business in the next few years. Again, you are right, we should grow a little bit more next year because we compare to the basis that we are right now, given the gradual increase of our growing stock and the fact that we have repressed demand for our logistic service. In fact, we are facing problems, selection problems, to define who is going to get our services because there is no room for everybody, the country is growing, exports are growing reaching record levels as well and; so our problem is the selection one and we are working very hard to add capacity, but we are facing the constraints on the supply side.

Mr. Altman: Ok, thank you very much.

Mr. Barbosa: Thank you.

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

Ms. Weinberg: Hi Fábio, Roberto. Good morning and congratulations on the results. First question is actually on the logistics business again, but on FCA specifically. It seems like you've invested a lot of money since you acquired FCA and I just wanted to have an idea of the returns on your investments on FCA, because when you look at the results of FC specifically the EBITDA in the results there, seem to be still very low.

And the second question would be actually in the aluminum business: it seems to me that the average realized price ton that you got in alumina was a lot higher this quarter; I wanted to know what percentage of alumina you sell in the spot markets, if you're realizing higher prices there.

Mr. Barbosa: Andrea, thank you very much for your questions. On FCA, we are investing a lot in terms of adding rolling stock; we are also investing in terms of improving track conditions and trying to improve its overall efficiency. The rationale behind the acquisition of FCA was not one of only in terms of our cash flow perspective but also in terms of the maximization of our asset performance, considering that we are in the iron ore business and the iron ore business require very efficient logistics. So we have cargos that are transferred from FCA to Vitória-Minas and that represents gain, represents gain to Vitória-Minas but it's not fully shared with FCA, given



the operational constraints we do have. I believe that in order to assess the return of the investment in logistics, you should consider it in an integrated basis, I mean, our iron ore business as a whole with the logistics that supports our iron ore business plus cost of shipping, plus ports, in order to have a better idea of the performance of the business, because if you take an isolated perspective, you may not have the picture of what's happening there.

In terms of alumina, yes, we keep selling a little bit of alumina in the spot market and it's now around 15% of our total sales, 10 to 15% of the usual range.

Ms. Weinberg: Ok, thank you.

Mr. Barbosa: Thank you, Andrea.

Operator: Our next question comes from Mr. Raphael Biderman, of BBVA.

Mr. Biderman: Good morning Roberto and good morning Fabio, congratulations for the results. I have also two questions on the aluminum and the railway division. I just need some clarification, if you can. On the railway division, on the third quarter, revenues from railway of the controlling company under Brazilian GAAP showed a much lower growth than a quarter-on-quarter, than in the second quarter; the second quarter there was a very huge growth of 20% and in the third quarter was of the order of 5-6%. Of course, there could be seasonal reasons but year-over-year the growth also showed a deceleration.

Also I want to understand, I mean, on the quarter-on-quarter comparison, I mean, that could be seasonal effect, but considering that demand is way above the capacity of supply, of railway services, is the reason of the deceleration really seasonal or it's an issue regarding that there was less railways expansion coming on stream in the third quarter or the wagons that you put in operation in the third quarter was more directed to iron ore to Carajás? And also what I would like to understand on that is what is the potential of growth in the future for railway revenues, I mean, if you could give us a guidance and considering these expansions that were not yet done in 2004 of the wagons and considering these ones you announced for 2005, what can I consider in terms of guidance of how much this revenue item can grow?

In terms of aluminum, Fabio, if you consolidate the EBITDA under Brazilian GAAP of the aluminum operations, in the third quarter comparing to the second quarter, there was a drop of 4% in the EBITDA of these operations and I see that prices are going very high in the period. I would like to know if there is a kind of this contract which has a lagging effect to the spot price, I would like to understand, if it was that; there was also some reduction on production in Albras, in sales volume of Albras, I would like to know, I mean, how much of the growth that was already occurred on aluminum prices, was not yet factored on the performance of the aluminum operations because the EBITDA was down quarter-on-quarter and how is the timing of that to be realized.

Mr. Barbosa: Ok Raphael, thank you for your questions. Let me try to answer your first one, in logistics. We have a seasonal effect in the general cargo business, if you look at our chart in page 10, you see in the presentation that is available to you, you see that the second quarter, in terms of absolute growth, it's the strongest one. Then, there is a marginal growth, not marginal but a lower growth rate on the second to the third quarter, even this quarter, because the second quarter we have the harvest that pushes our results in terms of general cargo, but for the next few years you should consider the addition of stock that I mentioned to you. This year we have already, as I mentioned, this 2700 rail cars, additional railcars to what we had in the beginning of the year and 71 locomotives. Our target is to reach 3,300 rail cars in addition to our fleet this year. Rail cargo and iron ore, it's 2/3, 1/3 division there and equipments, the growth rate will depend very much on the regularity of the arrival of the rolling stock that we are able to



get. So next year we are going to order 6 thousand rail cars and 120 locomotives. Of course they will not arrive in January 1st but we will try to speed up the process in order to catch both of, for instance what you see here, which is seasonality of the harvest. So that's what I can tell you from where we stand right now.

In terms of your question on the aluminum, I think that there is slight change you saw that, much more for the aluminum itself, it's much more related to shipments scheduled and other aspects. So it's just a ship or two that did not go in the quarter but went to the very next week of the quarter, it's a very small change that is explained by logistics aspects, I would say. And your other question regarding aluminum was? Sorry.

Mr. Biderman: It was regarding prices. I mean, if the contract prices of all the operations in your division, from bauxite to aluminum, how much they lag the actual effective market prices, the spot pricing? And how much if there is further upside on the effective realized prices of the aluminum operations, considering this lag effect?

Mr. Barbosa: Sorry. Well, they usually are at three-month range, of course we have included alumina with both of our production sold through long-term contracts and they have a reference price in three months price, but this is, I would say, that in this range would be the lag between the actual price in the market and the effect in revenues. Ok?

Mr. Biderman: Ok, thank you very much Fabio.

Mr. Barbosa: Thank you Raphael.

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

Mr. Fadel: Hello. Good morning Fabio. First question is: could you please breakdown the 2005 expected growth in iron ore production as you mentioned 20 million tons for 2005, additionally, in terms of region and MAE; and would there be also any depletion or mine closure in 05? Thank you.

Mr. Barbosa: Thank you for your question. Well, we should be operating Carajás next year at 78 million tons. That's our expectation, and we have a ship loaded in the Ponta da Madeira Port that will start operation in the third quarter of 2005, actually increasing the capacity of the port to 85 million tons by the third quarter of 2005, so in terms of production, I would say it's 40%, 8 million tons in the Northern system and 12 million tons in the Southern system and then we have, mainly Fabrica Nova unit that will be operating at 10 million tons per year in 2005. And the others are small additions in the Southern system that will amount to, will complete the 20 million tons I just mentioned to you.

Mr. Fadel: Ok, let's see if I got that out straight. So it will be 12 million tons net from the South system and plus 8 million tons from North, which is basically increasing Carajás to 78. So you think you're able to go from 70, which you speed the Carajás capacity to 78, without putting the operation at risk at all?

Mr. Barbosa: No, well, we, of course, we are operating with a very stretched system, but we are confident that we are able to perform at this level. So we believe that we'll be able to deliver the additional 20 million tons in 2005.

Mr. Fadel: Ok, great. And just another quick question: we saw some recent news on the Baosteel, steel project that CVRD is going together with them, so could you just provide us with information when the construction will start?



Mr. Barbosa: Well, it should start very shortly, we are trying to conclude the feasibility, there was some initial preliminary figures; it was due in September and actually had a first draft of the feasibility study but we wanted to discuss figures that are shown there; there was some increase in cost due to the very, let's say carefully: there was some price increase due to the cost of equipment associated with the steel prices, for instance, and the appreciation of the Real, so we have to refine a little bit the figures in order to have a clear figure of, a clear view of the investment. So this should be concluded by the end of this year, we hope, or early next year and construction should start right away.

Mr. Fadel: Ok, thank you very much. It was very helpful, thanks.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Alberto Arias of Goldman Sachs. Please go ahead.

Mr. Arias: Yes, a follow up question: following on the steel project with Baosteel, you were about to start construction, can we get any sense of what percentage participation is CVRD given that I would imagine that you're so close to starting building the plant that there should be a sense of what is the economic interest we are going to see at CVRD.

Mr. Barbosa: You are right about it, we should! But those are complex discussions and we are having with our partners in Baosteel and now so the sound structure that we are discussing with BNDES and other players that are also interested in the project. But I would say that we would take the stake that would be necessary to go forward with this project up to 50%, but it could be lower in a different arrangement that we will define very shortly.

Mr. Arias: Ok. If you could give us an update of your project development pipeline: you had been saying recently about the, you know, studies of the different copper projects and some of them also are getting close. If there are any new development that is worth highlighting and if you could also, please, include any potential update on your exploration during in Mongolia, which, you know, your team was very excited a few months ago.

Mr. Barbosa: On your first question, the next project in line is 118 target and it should be discussed with our board before year-end – that's our expectation, and then it should be implemented, if approved by our board, in the next two years or so, that's our next project. We're still discussing alternatives for the other projects but there's no change since the last time we've met. In terms of your question about Mongolia, also no news there, I mean, we keep working trying to find if it's a good alternative there, but so far, no news.

Mr. Arias: All right, ok, thanks.

Mr. Barbosa: Thank you, Alberto.

Operator: Thank you for your question Mr. Arias. Our next question comes from Art Winston of Pilot Advisor. Please go ahead.

Mr. Winston: Thank you for a great quarter. The fluctuations in these financial expenses and these taxes, you know, is pretty great from quarter to quarter, could you give us any sense of what to anticipate, at least qualitative, in what direction on these taxes, any social taxes, any interest expenses, say in the next six to nine months?

Mr. Barbosa: OK. Thank you for you question. On your first quest, in the financial expenses they are a combination of our net exposure to the exchange rate, given our functional currency is the Real, so we have an exposure to US Dollars and the exchange rate is a floating one, in Brazil. So this is the volatility associated with the financial expenses; that explains most of the



financial expenses, and it should continue to be as volatile as the exchange rate in Brazil because we have no plans to change our exposure to the US Dollar in terms of our debt, given the conditions we have managed to achieve in the international capital markets. Just yesterday, for instance, our 30-year bond was using 98% per year yields, so it's below 8% and for a company like CVRD it's a remarkable achievement. So we should keep tapping the international capital market in both of our financing so the net exposure should continue and then the volatility of the financial expense.

As for the taxes, as we did have a very good performance in the third quarter and for the whole year we were only... we declared, sorry.... We had a very good performance in 2004, so far, in nine months and this reflects additional tax payment and the tax optimization mechanism of most interesting shareholders equity; it only happens for formal purposes in October with formal approval, with the approval of the Board of the dividend payments as remuneration of our shareholders, in the last month. So we were not able to account for the deduction that is allowed for the payment we realized in the shareholders equity.

So this figure of the third quarter is, somehow, inflated and does not reflect the long-term trend, given this technicality of the legislation in Brazil regarding interest on equity; we could declare beforehand, as we did last year, last year we declared an additional payment in August and we benefited from the additional payment, that tax effect, right on the third quarter of 2004... of 2003, sorry. This year we declared formally, we announced in the third quarter but we formally approved it in the fourth quarter – that's why the tax figure is inflated, compared to its long-term trend.

In our view, in spite of these comments, as the company keeps performing very well as it has been in these last few years, and it has been growing in the last few years, the tax, the effective tax rate should increase marginally, and that's our view. Nothing that will harm our capacity to deliver very good results, but we should consider that tax, the effective tax rate, as we diversify more, as we grow, as we increase our operations in other countries, it should increase on average, but nothing, again, that will harm our capacity to deliver very good results to our shareholders.

Mr. Winston: Thank you for those answers.

Mr. Barbosa: Thank you.

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

Mr. Altman: Hi, just regarding your subsidiary Caemi, if you annualize their volumes in the third quarter around 48 million tons, that's quite a bit higher than their guidance or anyone else's guidance. I'm wondering if you have a projection for the 2005 volumes just for Caemi. Thanks.

Mr. Barbosa: Thank you Daniel. In fact Caemi had a very strong performance but as you know we have some seasonal effects there as well. We should not annualize it and project it for 2005. This year the production in Caemi will be 5% above our original estimate, could reach 41 to 42 million tons and next year, as Capão Xavier will be operating in full capacity, it only started operation in the second quarter of this year. We could reach, let's say, 4445 million tons there, in 2005. That's our best guess as yet, but we didn't conclude yet, the project for next year.

Mr. Altman: Ok, and should there be a difference between their production number and their sales number? Are they...



Mr. Barbosa: It should not be any relevant difference, as they do not operate or buy from third parties, as we do, for instance.

Mr. Altman: Ok, thanks very much.

Mr. Barbosa: Thank you, Daniel.

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

Mr. Barbosa: I just like to thank you very much and say that we are, will be starting our fifth Global Road Show next week, which will visit our shareholders worldwide, in order to update them more closely, of our latest performance. Thank you very much for your attention and patience. Our team and myself here will be available for any further questions you might have. Thank you.

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