



**Transcrição da Teleconferência**  
**Resultados do 3T05**  
**11 de novembro de 2005**

**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 would like to turn the conference over to Ms. Lídia Borus, from Financial Investor Relations Brasil. Please go ahead.

**Ms. Lídia Borus:** Good morning ladies and gentlemen and welcome to CVRD's conference call to discuss third quarter 2005 results.

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

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

With us today are Mr. Fabio Barbosa, CVRD's Chief Financial Officer, and José Carlos Martins, Executive Director of Ferrous Minerals.

First Mr. Barbosa will comment on the third quarter 2005 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. Fabio Barbosa:** Good afternoon ladies and gentleman. It is a pleasure to be with you today and we have again my colleague José Carlos Martins here with us, and also we would have Mr. José Lancaster, our Executive Director for Non-ferrous, but he is in Canada as you may imagine. We have some news today about Canico and we will comment a little bit later on.

But let us start with some highlights on our third quarter results. Again we posted very strong results, with several records. In terms of iron ore and pellets sales, they reached to 55.3 million tons, a growth of 8% on a year over year basis; potash sales, a new record 197,000 tons, reflecting the consumption of some inventories, but also this production is in part related to the expansion that we just concluded in the third quarter.

General cargo transportation, almost 7.8 billion net tons per kilometer, and a 4.3% growth on a year-over-year basis and port handling services 8.3 billion tons transported.

In terms of our operational margins continue to be very strong. Our EBIT margin in the third quarter reached 40.8% and net earnings on a 12 month basis ended, in the 12 months ended on September 30<sup>th</sup>, our net earnings reached 4.3, almost US\$ 4.4 billion, a very strong performance.



Despite what you see in the next chart the XXX cost that we have been facing particularly this year. This cost increase, of course, has to do with the cycle we are living through right now. It is natural to expect a change in relative prices for several inputs used in our production and this is, of course, being observed since steel material to produce, for instance, alumina, coke and all the materials involved in our production they are facing an important cost pressure there. But also we have to recognize the fact that the appreciation of the real is hurting our margins a little bit, compared to what would be in the absence of this process. Again, part of it is natural, a natural phenomenon related to the cycle as this is a long cycle and when commodity prices are up it is natural to expect a negative correlation with the position of the U.S. dollar against currencies of commodity producers, producing countries. That is precisely what is happening. But particularly in the case of Brazil, in the last 12 months we saw a major appreciation of the real, it reached 30% and this percentage, this growth, is well above the one ... the appreciation that was observed in several other countries that are also miners, like Canada, like Australia. So this is a peculiar aspect of our operation here as we have the bulk of our operations in Brazil.

Coming in more detail to this issue, I would say, I would like to highlight as we put there when we compare the third quarter of 05 with the third quarter of 04 when we had total costs of goods sold around US\$ 908 million now we have, in the third quarter we had US\$ 1.6 billion and you see there the increasing importance of outsourced services and materials. Materials now represent almost 19% of total costs, and I would like to highlight the increased cost of conveyor belts; tires; parts and components in general.

In the case of outsourced services, the cost increase is very much related to the increased freight cost observed in MRS, in Caemi transportation. Just to give you a brief idea, in the third quarter of 04 the cost of freight per ton there was R\$14.70; in the third quarter of 05 the cost of freight per ton was R\$15.50. In this period the currency appreciated around, on an average basis, around 21% so this gives you an idea of the cost pressures that we are facing. Also we in order to take the advantage of the momentum of the cycle we are speeding up the waste removal in our operations in order to uncover more ore to be dig in our operations in order to prepare for a less favorable environment, but in a way this has an impact in costs that is not reflected in addition of production and is recorded there also within this item outsourced services, but altogether US\$ 1.6 billion in this item.

Our revenue growth was the main driver of our adjusted Ebitda increase compared to the third quarter of 04 it was slightly over US\$ 1 billion, now in the third quarter of 05 it was US\$ 1.7 billion and you see there the negative effect of the appreciation of the real, is estimated in US\$ 255 million, partially offsetting the price increase that we got in most of our products as you see there as well with a total impact of prices of US\$ 840 million.

I would also like to highlight the effort that we are implementing in terms of research and development and we charge in full, all our investment in mineral exploration in research and development, we charge it in full in our cost structure. It a conservative approach but one that we are extremely comfortable with as it is a risk venture, as you all know, but CVRD has its policy to charge in full all investments there as costs.



When we compare the third quarter of 05 with the second quarter of 05 and we take out the effect of the retroactive adjustment of prices in iron ore, you see that our Ebitda figures are virtually flat, so on an adjusted basis our Ebitda would be US\$ 1,75 billion in the second quarter against US\$ 1,712 billion in the third quarter of 05. With that performance we achieved the 14th consecutive quarter of adjusted Ebitda growth and our Ebitda on the last 12 months ended in September reached almost US\$ 5.8 billion in the quarter ending in September. Out of this result, about 80% was generated in the ferrous minerals division lead by José Carlos Martins, that is today with us; 10% of the total Ebitda was generated in the aluminum chain; logistics 7%; and non ferrous still a very small chunk of the total with 2.8%.

This very strong cash flow generation allowed us to improve further our balance sheet and in this quarter the interest coverage Ebitda ratio reached ... our Ebitda would cover 21x the short-term interest payments that we have in our balance. Up from 17.7x and it is the triple, almost the triple the ratio that was observed in December 31, 2001; and in terms of total debt/Ebitda also we came down to 0.68 from 2.05 in December 31, 2001 as well, and the managed to achieve the investment grade rating by S&P just now in October and with this step we now have three investment grade ratings granted by those agencies and we reaffirm, with the transaction that we implemented last month, the quality of our credit in the market with the reopening of the 34.

I would like to take this opportunity to clarify the transaction that we just did with Caemi, and their subsidiaries, and that produced some noise in the market. In our view this transaction that was first fully disclosed to the market, it is a very short term one; in our view it is just an adjustment of cash flow with no repercussion, no consequence whatsoever in terms of the dividend policy of Caemi, of the investment program of Caemi and any other decision that would be taken by Caemi. Again, it is a very short term transaction that is remunerating Caemi well above what it would get in the market in normal circumstances and we don't see that different, as a transaction, different from any ... as a transaction that could be different from any cash-flow optimization of the group. However, we understood the market message in terms of the transaction and I would like to reaffirm to those who I have not talked yet that this transaction would be liquidated no later than January next year, when its the original maturity of this transaction. Again, it was a transaction that is, in our view was favorable to Caemi, favorable to CVRD, but will liquidate it as scheduled and no later than January 2006, with no consequences to the intended investment plan of Caemi and no consequences in terms of dividend payment to Caeme shareholders. I would like to clarify this point beforehand.

Turning to the second session of our presentation today, we are showing very impressive figures and in terms of Capex so far in the first nine months of the year, with US\$ 2.3 billion spent so far, on a 12-month basis almost US\$ 3 billion. The disbursements in Capex are very much in line with our annual forecast of US\$ 3.3 billion, if you see t the twelve-month figure, and in terms of projects we spent US\$ 1.6 billion; research and development US\$ 181 million and stay-in-business US\$ 519 million. We delivered three major projects: Fábrica Nova, that is a new iron ore project that will be producing 15 million tons of iron ore on an annual basis and it is already producing, of course, with a very strong performance and Martins could comment that, as well; Taquari-Vassouras is our potash expansion that we started up in this third quarter with an annual capacity of 850,000 tons and finally our power plant of Aimorés, after a long time of expectation now we were able to deliver this project and it is already operating.



We also made several important decisions in terms of investments, for instance in the case of Caemi and MBR; the Itabirito's project, it is a pelletizing plant with a capacity of 7 million tons per year and this pelletizing plant will cost US\$ 452 million and the concentration plant that comes together with this plant, US\$ 282 million. Martins will comment a little bit on this project in the Q&A session, if you want. The estimated startup is the first half of 2008. But more than that, I would like to have Martins commenting on the main drivers of the global demand of pellets; he is very keen in this market and he would like to make some qualitative comments on the potential growth of this specific segment of the iron ore market.

**Mr. José Carlos Martins:** Good morning everybody. Talking specifically about the pellet market, we believe that this market will grow above iron ore market because of several reasons behind of that. The first reason is for DRI plant, a scrap substitute drive, which is seen mainly in the Middle East. A lot of DRI plants are being developed there and we believe that we are going to have a very strong growth in DRI pellets, mainly in Middle East and some gas rich countries. The second reason for the growth of pellets is the question of environment. Pellet is more environment friendly than cinder, carbon emission is much lower, so we see in several countries a lot of restrictions for cinder plants that are bringing the cost of building new cinder plants very high, so there is another reason for increasing demands of pellets to substitute cinder. The other reason for increasing pellets is the reduction of lump ore production worldwide and lump is less available now in the total iron ore production, so you need lump or pellets to feed the blast furnace, otherwise you increase a lot slag production, which is also an environmental problem. If you are not able to sell the slag to use in the cement industry you have a big problem with the slag disposal, so reducing slag rate in the blast furnace is a very important factor also acting and this will drive additional demand for pellets. And the last issue is the productivity increase. This case is mainly when you have your blast furnace operating at full capacity, the only way to get additional production is by using more pellets, because pellets is more productive to use. So this situation mainly happens when you are operating full capacity. When you have some slow down, in the steel demand normally you have a reduction in pellet use. But the situation nowadays is that most of the blast furnaces worldwide are operating full capacity and the cost to build another blast furnace with coke ovens and other auxiliary equipment brings capital costs very high, so there is another compelling reason to use pellets because it can increase your productivity, you can increase your production without having to invest more in hot metal production. These factors together is a compelling reason for increasing the pellet consumption and because of our assessment of this opportunity we approved the capacity increase at Samarco, a subsidiary where we have 50% stake and Samarco will increase, will invest almost US\$ 1.1 billion increasing pellet production for 7 million tons per year, plus investments in mining and concentration plant. Together will be around US\$ 1.1 billion. And we also approved investments in MBR, which Fabio already told you, to increase, to start the first pelletizing plant for MBR.

The situation in the Southern system of Brazil is that we are going to generate more and more pellet feed, so the strategy of combining growing markets for pellet feed with more generation, a stronger market on pellets with more generation of pellet feed in the Southern system is a very good combination for us because we are going to increase production of a kind of iron ore that will have more demand. Besides of that, not taking into account only our investment in pellet plants, China is increasing a lot pellet capacity because of the Chinese iron ore is mainly suitable for pellet plants, but they need to correct their quarter so they need Brazilian pellet feed also. So we think that the combined market of pellet feed and pellets, will grow above the market of iron ore as a whole, and this trend will be very beneficial for CVRD because our pellet feed generation is going to increase not only in our mines but also in MBR mines.



**Mr. Barbosa:** So you see that it is a very important investment program in our pelletizing capacity and together with that we are of course exploiting our competitive advantage in the aluminum chain, particularly on the upstream bauxite and alumina and we just approved a second stage in Paragominas that will increase the total production of that mine that is fully owned by CVRD to about 9.9 million tons per year by the first half of 2008 and this new investment will also enjoy the advantages of the slurry pipeline that is going to minimize mining, refining and transportation costs. As for Alunorte we are almost concluding the expansion stages 4 and 5 with 1.9 million tons and we already approved a further expansion of Alunorte for an additional capacity of 1.9 million tons and with that, Alunorte will become the largest refinery in the world with 6.3 million tons per year capacity.

We also managed to approve, to get the board approval for the second copper project, is 118 with a capacity of 36,000 tons per year of copper XXX.

The Capex is US\$ 232 million and the startup is estimated first half of 2008 and as you may recall, this project has a lot of synergies with Sossego and even with Vermelho project.

In the case of Sossego the oxide material that was removed to dig the sulfide ore that is there, will be transported to the 118 and the same will happen with the sulfide ore that is there in the 118 deposit, so there is a lot synergies to explore jointly with the 118 and the Sossego project. Together with this basic synergy, let's say, we have also the synergies represented by the sulfuric acid plant that will operate, will also attend the copper demand but also the demand from the Vermelho project, the nickel project we have there. What we have always told you about the synergies of having, in a very rich mineral province like Carajás, several opportunities to promote our growth, organic growth, and we are doing that.

And you see in the next slide our pipeline of projects. Of course this may be updated with the discussions we have with our Board until the end of this year regarding our budget for 2006 and also due to the expected conclusion of the Canico transaction, but anyway it is an impressive pipeline of projects. In the last 36 months Capex reached US\$ 6.5 billion. Just in 2005 we have this US\$ 3.3 billion budget for our Capex program, a very important investment program in the industry and that should be further enhanced by the Canico project, if we manage to conclude the transaction.

Turning to the outlook of the market, in our view, market, the world economy should continue to perform very strongly. We put there the PMI as usual you see that in the last few months there was a clear reversal of the downward trend. We have very good signs in the U.S. economy, very interesting reaction in some European economies, particularly Germany, that is showing much stronger growth - of course observing the standards of growth that have been prevailing there, but also in Japan. We have been commenting with you for some time now that the important component of domestic demand in Japan is not only the issue of the composition of aggregate demand, but the very fact that the domestic demand there shows that this new growth cycle that we hope, may be more sustainable in a long-term basis, given the quality of the demand that is there. Confidence is back and the country is growing at a higher growth rate.

In terms of our specific market in iron ore, we believe that in the short term several indicators point to a global excess of demand. Strong Chinese demand, the very low inventory level in Chinese ports; the very existence and the level of the spot market and the fact that there is no idle capacity among iron ore miners. In terms of the steel consumption in China, we see that it is accelerating and the apparent consumption is growing there and the fixed asset investment, which is a very good lead indicator of future steel consumption, is growing at 27% annual rate. So there are very strong figures, you saw the growth in the third quarter of China, Chinese economy, 9.4%, so growth continues to be observed and there is no indication whatsoever of weakness of the demand.



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In terms of the Chinese imports of steel, after a very brief period and a very small volume of net exports in the beginning ... late 2004 and early 2005 what we see now is a major shift in terms of net imports and the latest figure I saw a total net import is even above the figure that you see there in the chart of 1.2 million tons as of September 05.

Chinese iron ore imports reached almost 200 million tons in the first nine months of 2005, 199 million tons, 31.7% growth compared to the same period last year, that ... remember that in 2004 Chinese imports grew by almost 60 million tons and this year they should grow by about the same volume from a much higher base, from 208 million tons to maybe 270 million tons as we are estimating right now. So demand for imports of iron ore continues to be very, very strong. And you see also that inventories are at a very low level; the inventories, considering the size of the steel production, we would expect to see inventories of around 45 million tons available and what we see should be enough only to sustain production for, let us say, 2 and 1/2 to 3 weeks, so it is a very low level in our view and more than that, the quality that we are observing, according to our office in Shanghai is a very poor one. So inventories are down and the pressure is there and turning to the spot market it is interesting to notice the increased share of the spot market in the seaborne trade. It was estimated at 3% in 2003, and 2005 our best estimate it should reach 9% of a seaborne trade that could reach 670 million tons this year of 2005. So not only the seaborne is growing but also the spot market, indicating the imbalance of this market is growing as a share, as a percentage of the total seaborne trade. Just this phenomenon just reaffirms our view that there is an excess of demand compared to the constraint of supply that we do have in our industry, and this excess of demand is fully reflected in our view in the very existence of a spot price above the regular C&F price, adjusted C&F price of CVRD, for instance.

You see that in this next chart that if we consider iron ore in a C&F basis it is still US\$ 18.20 cheaper than the spot price being charged to the Chinese producers of steel in that market; so it is a clear indication of, again, an imbalance there, and it is interesting to notice that before the price increase of this year, our C&F price would be around US\$ 56 per ton; now it is around US\$68 per ton. The actual cost increase for the Chinese producers are much lower than the actual price increase of iron ore due to precisely to the reduction of the cost of freight.

Then we have the fact that there is no idle capacity, and this chart is very interesting in showing that in the last 20 years we have been, the industry has operated with an average idle capacity of 7% and currently there is no idle capacity. This means the market is very tight, for one side and this also means that we are facing additional cost pressures and that as we are stretching our system to the very limited. So, costs are there, the appreciation of the real is there; and in order to deal with this situation we must have the right incentives to invest and to increase capacity in the long term and to rebalance the market.

According to our forecast, the seaborne trade this year would reach 670 million tons and in 2008 it should reach 815 million tons. This increase in our seaborne trade, in our seaborne estimate, should be of course driven mostly by China, with 390 million tons of imports by the same year of 2008.



Turning briefly to the copper market, we see a very strong performance, a very strong performance of prices, let us say, due to very low inventory levels, some disruption in supply and of course the usual suspect, is Chinese demand contributing to this achievement of copper prices to surpass the US\$ 4,000 per ton barrier. This happened this very week and two weeks ago as well and as we see the global gross prospect and the level of inventories that are prevailing, we do believe that this situation should continue for the next few months. The same scarcity or imbalance is also observed in the alumina market, with a sizable shortage being observed from spot market transactions above US\$ 500 per ton. More than that, this is representing, in our view, a change, a structural change, in the long term prices for alumina as new contracts to be established in a long-term basis; they should be above the usual 12.5 per 10% range of the LME price, reflecting of course the scarcity that is prevailing.

Those are my initial comments and to conclude I would like to mention that we are confident that this Canico transaction, if we are able to achieve an agreement with at least 50% of the shareholders plus one share, if we are able to do that, this will be a very important project for CVRD. It is an interesting project; we have synergies, unique synergies, I you would say, CVRD has unique synergies with Canico in terms of the project that is supposed to be implemented. And we do believe that with this acquisition we will be consolidating our presence in the nickel industry and adding, and complementing our basket of products on a more meaningful way; the basket of products that we are able to offer to our clients, our major clients in the steel industry. So myself and Martins will be available to answer the questions you might have and thank you very much.

## Q&A Session

**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 \*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. Again, to ask a question, you press, “star”, followed by “one”.

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

**Mr. Alberto Arias:** Good morning Fabio. Good morning Martins. The first question is with regards to Carajás. We have seen for several quarters in a row that there have been reports of operating problems. I remember in the first quarter you had implemented an emergency plan because you had a decline in your iron ore volumes out of Carajás; it was 20 million metric tons in the fourth quarter, it came down 21% to 15.9 in the first quarter and it recovered to 18 million metric tons second quarter and now has declined again and I know that some of your most important growth plans in the iron ore industry are in Carajás. Could you explain to us what are ... if there is something more structural that we are seeing that you cannot resolve and is there a risk that you are not going to deliver the growth expectations that you have for Carajás for structural reasons? And then I have a follow-up question on Canico, but maybe just that first on Carajás.



**Mr. Martins:** Relating to Carajás, as you can note we are there expanding the capacity to 100 million tons. We have almost 3 projects under way, we concluded the 75 million tons capacity project, we are expanding to 85 million tons capacity, and we just started working on the 100 million ton capacity. So Carajás is a single mine, with a single system. To have all of these projects under way in the same mine, brings a lot of interference. What we are facing there; is mainly the interference from this project. We did not; we don't see any kind of structural problem besides of the interference of the new projects and for this year if you look only the seaborne market in Carajás we intend to be very close to our budget there in spite of all these problems. So what I can tell you is that we don't have there any kind of structural or big problems, but mainly the interference of these projects that are under way and we have problem with subcontractors; problems with equipment deliver, trucks; tires; everything affecting the development of the capacity improvement and we think that by next year and we are going to have everything on time again, but for sure we faced a lot of problems with the expansion of the mining capacity. And we are also now working in a conceptual project to increase the capacity above 100 million tons, to reach 130 million tons by 2009.

Additionally Fabio told you a lot about the impact of Brazilian currency strengthening in our cost structure, but to cope with the demand we have been making a lot of efforts to increase production and this surely is affecting our cost structure also. So I think that for next year we are going to be in a better position to control these costs and to bring production under the schedule.

**Mr. Arias:** The follow-up question on Canico. Fabio you have increased your bid on Canico by 21%. Canico put out another feasibility study just last week. There was no significant change in terms of resource or Capex. We get the sense that there was not a competing bid, given that probably the most likely counter-bidder, they are involved in a merger among themselves. What has driven you to **XXX (43.29)** the bid if there was no other potential competing bid out there and may be the price, you had said many times that you believed that 17 was a fair price to Canico shareholders?

**Mr. Barbosa:** Well, of course we reacted to the market, and we do believe that we have synergies there, more than that this project could bring us a stronger presence in the nickel industry. What happened is that, we observed what the market indicated just after our proposal. There was a major change in the shareholder base and with that we stretched our estimate, our cash flows and we tried to get the best proposal that would attract the management and the board of Canico to support our proposal. Clearly there was ... I don't share your view that there was no other potential bidder there, but clearly in order to get their management support and the board support we had to move, and also responding to the market circumstances. Now have a bid that is granted, in our view and, that catch the synergies and also counts, we can count now on the full support of the board, the directors, the senior management of Canico and also from their financial advisor that issued a financial opinion on the asset. So it is a set of circumstances and negotiations went through during this week, and we believe that with that we will be able to conclude shortly this process on a successful way.

**Mr. Arias:** Thank you.

**Mr. Barbosa:** Thank you.

**Operator:** Again, as a reminder, please kindly limit yourself to two questions. Any follow-up questions may be posed after others have posed their questions.

Our next question comes from Jorge Beristain, from Deutsche.



**Mr. Jorge Beristain:** Hi, good morning Fabio, Jorge Beristain with Deutsche Ixe. My question relates more to the non-iron ore businesses. We saw a strong deterioration quarter on quarter in your Ebitda output at alumina chain operations from around US\$ 150 million steady state down to 110. We also saw very strong change quarter on quarter in your non-ferrous businesses. Copper is understandable, you are still not getting your production up to normalized rates there, but I wonder if you could talk a little bit to the point of when you see these non iron ore operations normalizing and if in fact you view that the main reasons are one-offs or if there is some structural changes happening, where we are seeing perhaps cost inflation bringing down the normalized margins of your lower-margin businesses?

**Mr. Barbosa:** Thank-you Jorge. In fact in the case of aluminum it is still the energy costs that we are facing there. You see that in the case of Albrás in the third quarter of 04 the average cost of energy ... the total cost of energy was around US\$ 22 million in the third quarter of 04. In the third quarter of 05 this cost was US\$ 44 million, it is a major changes there. We are also facing some costs related to imports in the production of alumina in particular, with soda; coke, coke is of course reflecting the market that we have been observing and I could mention caustic soda and oil as we put in the press release, but also payroll and other costs related to the adjustment of the salaries that in the case of the aluminum chain is slightly earlier than in the case of CVRD, it is the end of the second quarter and is fully reflected in the third quarter. As for the other businesses, copper unfortunately we were not able to get the drilling machines that we hoped for, on a timely basis and we are not operating in the best, in the most efficient way yet, the ramp up period is taking more than would, we expected actually and we hope to improve gradually particularly after ... in the first quarter of 06. We have to ... we don't know if we will be able to show strong performance in aluminum, sorry, in copper in the fourth quarter given this unavailability of the right equipments to operate.

As for kaolin business that you pointed out and all the other non-iron ore businesses, kaolin had a disappointing performance this quarter, and there was a specific event, a postponement of a shipment of 18,000 tons, but also there was the write off of part of the inventories there. This write off was due to the poor quality of the material that was there and we are trying to, in a way, to recycle this material in order to use it, but we consider that we lost this material and that affected the performance of this specific business in this quarter. I am not sure, to be very open with you, if we will be able to recover the 6,000 tons of kaolin that were written off due to the quality that did not meet the specifications of our client. As for potash, we believe that was a good performance as well as in logistics, as you saw in the figures. In the case of the other ferrous businesses as manganese, I don't know if Martins has a specific comment there ...

**Mr. Martins:** In the case of manganese we are suffering a lot with prices. Prices for manganese went down sharply and one of the main reasons besides that was the decision of the American government to sell their strategic stocks of manganese. This brought the price down very sharply in the United States and is influencing the price all over the world and as you probably know in this kind of market, price volatility is very high, so we are facing a lot of difficulties with the alloy, manganese alloy business, not with the ore. The prices for ore are stable, but the prices for alloys are very low.

**Mr. Beristain:** Thank you.

**Mr. Barbosa:** Thank you.

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



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**Mr. Rodrigo Barros:** Good morning gentlemen. My first question is in regards to Casa de Pedra. I would like to see CVRD's view on where the iron ore bought from Casa de Pedra will be delivered, at the mine or at the port?

**Mr. Martins:** It is very clear for us, we bought the iron ore at the port.

**Mr. Barros:** Ok. My second question is in regards to your long-term capital structure now that you are investment grade. Could you give us some guidance on how to project the debt of CVRD a few years from now? What is your goal in terms of maybe net debt to Ebitda, or interest coverage, something like that?

**Mr. Barbosa:** Well, our idea is to get even closer to the top players in our industry, which is a capital-intensive industry. We have improved several indicators as you can see in our statements and we still have some improvements in the structure to reach there. I would agree with you that given our cost of equity, the level of leverage that we have now may not reflect in the long term, the optimum structure that we could achieve. However this is a process, we are building our reputation in the market and then we believe that we still have some room for further improvement in terms of our rating. Our spreads toward the companies with the same rating are still higher, so we are in the process of building this reputation but I would agree that in the long term the capital structure should be optimized with slightly more leverage, but not ... it would not be different from the major players indicators that we may see in the long term.

**Mr. Barros:** Thank you very much, Fabio.

**Mr. Barbosa:** Thank-you.

**Operator:** Our next question comes from Mr. Jander Medeiros from Banco Pactual.

**Mr. Jander Medeiros:** Hi everyone. My first question is regarding your new offer for Canico. I just wonder if you could give us an idea on the timing for all the remaining steps, assuming that most shareholders accept your offer and also the legal requirements that you should attend in Brazil and in Canada before completing the offer? This is my first question.

**Mr. Barbosa:** Thank you Jander. The timing of the offer will stand until November 28<sup>th</sup>, so we have to have the 50% plus one share by November 28th. This is the time that you are working with. Of course, if we have, as we do have now, support by the management and the Board of Canico the recommendation to the other shareholders, this process could be anticipated so it could be concluded earlier, but it will all depend on the market conditions.

**Mr. Medeiros:** My second question, now regarding Caeme and the inter-companies debt. You mentioned it would not affect Caeme's dividends in the next few months, the next few quarters. Could we expect Caeme's dividends improving, maybe Caeme releasing a dividend policy for the next ... let us say, for 2006? Thank you.

**Mr. Barbosa:** Jander, again, as you mentioned this will not change any idea Caeme might have about the dividends in 2006, which are not announced yet and so I cannot comment on that. What ... the point I was trying to make is that this transaction was a very short-term one and it will not affect in any way, in any direction, in any possibility, the decision that will be taken regarding dividends to be paid in 2006, ok?

**Mr. Medeiros:** Thank you

**Mr. Barbosa:** Thank you.



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**Operator:** The next question comes from Andres Perez, from Morgan Stanley.

**Mr. Andres Perez:** Hi Fabio, just two questions; one on the deal with Caeme and CVRD. Are you considering any measures or changes to your bylaws to ensure that something like this would not occur again? And second, I saw that you obviously mentioned that you faced delays in receiving equipment related to your copper project. Are you also seeing additional delays for other projects and how could this affect the startup time of a number of your expansion? Thank you.

**Mr. Barbosa:** OK Andres. As your first question, no; we don't think that it is a matter of changing the bylaws. What I mentioned is that we heard the market reaction and we noticed that this reaction had to do with the transaction, so we will take the adequate measures in this regard and we, as I mentioned, we will liquidate this transaction no later than January 2006. As for your second question, the delays are a reality in our industry and this is part of the explanation why I believe that the cycle for being further expanded, if you do not consider the very fact that there is a secular demand provided by China and that it's propelling worldwide demand for minerals and metals, what we observe is that we have the industry of equipment not fully prepared to deliver all the equipment that are being demanded and this should continue in the foreseeable future.

**Mr. Perez:** Yes, thank you.

**Mr. Barbosa:** Thank you Andres.

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

**Ms. Andrea Weinberg:** Hi Fabio, the morning; first question on the costs. Costs did increase a lot year-over-year, but on a quarter over quarter basis we did not see a major increase in costs. I just want to understand if we are seeing a kind of instabilization of the increase in the costs? If you take out the effect of the appreciation of the real, if your cost pressures are decreasing if you disregard the appreciation of the real?

**Mr. Barbosa:** Andrea, the effect of the appreciation of the real if you compare to the third quarter of 04 was about US\$ 200 million, US\$ 203 million to be precise out of the increase of roughly 500, almost US\$ 600 million; one-third of it was actually related to the appreciation of the real. We also had the effect of volumes, it is about 10% of the total cost increase and as we managed to achieve a good price increase for iron ore and pellets, on the third-parties' acquisition, as we are buying more to supply our clients, they also grew, in this same comparison, about US\$ 83 million, and there is a structural component there that is the combination of a higher asset base, of a larger asset base and an appreciation of the real that increased....

I would also mention that outsourced services they are of course very much related with the appreciation of the real and the very increase of production, we are out serving in Caeme and CVRD. And in the case of Albrás we may have, we are observing the effect of this cycle in a way, with the increase in the aluminum prices in the LME and the impact of that in the average tariff that we are paying to Eletronorte to supply our plant there. So they are related in a major part, related to the cycle; there is a specific aspect of the appreciation of the real that is, again, peculiar to Brazil, the dimension of the appreciation is not being observed in other countries, so this is country specific in a way, and this has to do with the macro policies and I will not speculate on that. That are some structural components and there are some cyclical components that are more short-term components that should be, would be in place on a permanent basis, for instance the bonus paid to our employees in the negotiation of labor contracts that the bonus was around US\$15 million and this would not be recurrent. So I think it is a combination, but the bulk of the cost pressure has a structural component.



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**Ms. Weinberg:** OK, quickly on Caemi again; is there any chance that we could see CVRD implementing the similar dividend policy at Caeme as you have, which means announcing a minimum dividend and paying twice a year?

**Mr. Barbosa:** We are not considering at the moment any change in the dividend policy of Caemi. Thank you.

**Operator:** The next question comes from Joseph Carvin, of Altima Partners.

**Mr. Joseph Carvin:** Hi Fabio, thank you, and congratulations on the great third quarter results. I guess my question has pretty much been answered so I will make it as a comment. I wanted to thank-you for clarifying what Caeme transaction was, because it is important that the market understands that Caeme got the better rate of interest than it would have gotten just going into the market and secondly that it is a short-term transaction. I would also like to encourage you to think about your dividend policy both at Caemi and CVRD – the Caeme level as well a CVRD. Both two companies have tremendous amounts of cash and the market is obviously concerned about what you are going to do with it and we just saw today a US\$ 25 billion share buyback from Intel and I think that it is important that as a company generates as much cash flow as you are, you know, 21x Ebitda vs. interest expenses, that to give the market some signals and so I guess in general I would be looking forward to a more formal dividend policy at Caeme and obviously you have one at CVRD and so thank you for making that clarification, it I think it was important.

**Mr. Barbosa:** Thank you very much for your observation Joseph and we, of course, we are always open to discuss with our shareholders, investors, and analysts any idea they might have regarding our company. Thank you very much for your comment.

**Mr. Carvin:** Thank you.

**Operator:** Our next question comes from Daniel Altman, of Bear Stearns.

**Mr. Daniel Altman:** Hi, good morning. Two questions, if I can; firstly on the alumina expansions on stage 4 and 5 and then on stage 6 and 7. How much of the expanded capacity will be sold into the spot market and how much will be sold in the contract market? And based on that assumption, do you have a target or ORC for, particularly, the 6 and 7 expansion? Second question is on your strategy vis-a-vis Casa de Pedra and CADE. So I understand that you are fighting the CADE ruling. Can you explain a little bit your strategy and also comment on the recent announcement by CSN and that they now think Casa de Pedra is not only a 40 million tons mine, but actually a 50 million tons mine? Thanks.

**Mr. Barbosa:** On your first question Daniel, we are, of course, negotiating the contracts for the expansions 6 and 7 and I would say that most, the bulk of our production will be sold through contracts, then I'll take there. And I don't see any change in the percentage of may be 10/15%, maximum 20% if market conditions allow to be sold in the spot market, even in the expansion of stages 4, 6, and 7. So again, it is business as usual in a way, with some upward buyers, of course, given the very strong market that is there, but the bulk of the production should be sold through long-term contracts. And I will ask my colleague Martins to answer your questions about Casa de Pedra.



**Mr. Martins:** Well, Casa de Pedra used to be a legal issue with the business implications and now is becoming a business issue with a legal implication. More and more is a question of the legal procedures relating to the agreement they have and with the CADE decision, some problems with the CADE decision. In Brazil when things like that go to the justice, the timing for solution is very long, so it is very difficult to see what will be the development, considering the time it requires to follow all the legal procedures in Brazil. So it is very difficult to tell you what will be the final solution for that.

The second issue is about the volume. We believe that we are supposed to know Casa de Pedra very well, because we worked together several years and we had this preferential right for many, many years, so we always believed that Casa de Pedra is a mine to produce around 40 million tons at most, but they are conducting exploration nearby, you have the issue of moving from XXX to XXX which can increase production mainly of the pellet feed part of the mine. So we don't have enough information to tell you about, but we think, we continue to think about Casa de Pedra as a mine able to produce, at most, 40 million tons. We don't believe that it can go beyond it in a short period of time.

**Mr. Altman:** Ok, thanks. Then based on your market intelligence, are you seeing your customers talking with CSN to sign contracts even before their right of first refusal issues finally XXX?

**Mr. Martins:** We don't have information about that.

**Mr. Altman:** Thank you so much.

**Mr. Barbosa:** Thank you Daniel.

**Operator:** Our next question comes from Mr. Felipe Reis, from Santander Investment.

**Mr. Felipe Reis:** My question is related to your steel projects in Brazil. Actually it would be helpful if you could provide some info about the status of the main projects especially the Maranhão slab plant and regarding alumina project and an update about EBC project would be great. Thanks.

**Mr. Martins:** Related to the steel project we have the project for Ceará going through, everything is settled, part of supply; pipelines; the agreement between the shareholders, so the Ceará project, which will produce around 1.5 million tons of slab, I can tell you is under way and CVRD will have a minor stake in this project, below 10% and will supply near 2.2 million tons of pellets per year for this project, and we think that this project is now a reality. Another project which is developing very well is CSI project ... CSA project with XXX, where we are going to have 10% also and this project is near the point to take the final decision. Relating to the Maranhão project it is troubled with problems with environment permit; land property definition, so this project is really bugged, mainly with governmental pressure in the Maranhão state. Probably will be delayed, but we consider that if you take in consideration the extraordinary logistic advantage of this project, he will come true in the future, if not with the Chinese, with other interests, other companies that are interested in developing steel production in Brazil. So Maranhão, São Luis is a very suitable place for building this project. So it is not a question if it is going to be, the question is when it is going to be built.

**Mr. Barbosa:** And for the alumina project, the alumina plant, with ABC, we are trying to reach a final agreement with our Chinese counterpart, but it is in our pipeline as you see there ... you saw there in our chart, it is scheduled to be operating in 2009. So it is a negotiation that of course will be held by the very tight position in the market; we believe particularly due to the demand originated from China.

**Mr. Reis:** Thanks a lot.



**Mr. Barbosa:** Thank you.

**Operator:** The next question comes from Katie Blacklock, of Thames River Capital.

**Ms. Katie Blacklock:** Hello. You mentioned with Canico that the synergies that you see there; are you able to quantify those of all? And then my second question is if could you just remind us of your Capex guidance both for this year and for next, please?

**Mr. Barbosa:** OK Katie, thank you. We would not like to disclose in full, our synergies; we would like to work with the concept there. I believe you understand, as we are still in the process of getting the shareholders' approval. What I would say in this regard is that the synergies are meaningful and allowed us to move, as we did, to reach this level of \$ 20,80 - Canadian dollars - to pay and to get the full management and Board support to this transaction, but more than that I cannot comment right now based to some constraints that we do have. For your second question, is on the ... sorry, could you repeat, Katie?

**Ms. Blacklock:** It is just on the Capex guidance for 2005 and 2006 I just want .to know if you are still at the 3.3 for 2005?

**Mr. Barbosa:** For 2005 you saw the figure for the last 12 months, it is around US\$ 3 billion and this is a very good estimate, slightly higher I would say, 3.1, 3.2 for the 12 months ending December 2005. As for 2006 our first estimate and this will be discussed with our Board, it is a Capex program of around 5 billion but still, we still have to check, of course, to get, to discuss the Capex with our board and see what will be their final decision. Let me just warn you that this 3.1 or 3.2 billion of 2005, this figure does not include the acquisition of Canico if we manage to do that, so you should adjust this figure for the final transaction amount that will be concluded shortly, hopefully.

**Ms. Blacklock:** Thank you very much.

**Mr. Barbosa:** Thank you Katie.

**Operator:** The next question comes from Catherine Sterrit, of Scotia Capital.

**Ms. Catharine Sterrit:** Hi there. I had a question in regard to Canico. In terms of a lock out of agreement with the shareholders it says that approximately 11.5% have agreed to lock out. I am just wondering what shareholders that would be?

**Mr. Barbosa:** They are the management group basically.

**Ms. Sterrit:** Management?

**Mr. Barbosa:** Management group, yes.

**Ms. Sterrit:** Ok, and one more question I have, was on ... I understand that XXX owned over 18% of Canico. Have you had any discussions with them prior to making the offer? And whether they've given any indication of tendering their shares?

**Mr. Barbosa:** No, we did not have any discussion with them as for this proposal that we just changed, and we don't know what will be their reaction to this proposal. I believe that they will understand that is a fair proposal to all Canico shareholders, and management and the Board are



fully supportive of this proposition, but we don't have any specific information about their own views on the new proposal and how they would react to that.

**Ms. Sterrit:** Ok, great, thank you very much.

**Mr. Barbosa:** Thank you Catharine.

**Operator:** The next question comes from Alberto Arias, from Goldman Sachs.

**Mr. Arias:** Yes, just a couple of follow-up questions. Fabio, did I hear correctly that to say that the Capex for next year is going to be US\$ 5 billion? Did I hear that right?

**Mr. Barbosa:** Yes you did. I did not say that it will be, I said that we are estimating to present to our Board a Capex of about this figure, about US\$ 5 billion, but the final decision will be made by the Board and we will be announcing, as we do every January; we will be announcing in January the total investment program for 2006, but the first estimate that we do have, is about this figure, US\$ 5 billion.

**Mr. Arias:** But you know I consider that that is a huge, huge announcement. What is it in the budget that is going to so dramatically increase that Capex? It is around US\$ 2 billion above what I would assume that is already a pretty high Capex. Are you including acquisitions? Could you explain, is this an acceleration of some of your projects?

**Mr. Barbosa:** No, Alberto, this is basically just ... in this very presentation you see several projects, right? The Itabirito and some of them were already there. Next year, and we are talking about potentially; let us imagine that we are able to conclude the discussion with the Canico shareholders, two major nickel projects. The Vermelho project with a total Capex cost of US\$ 1.2 billion and well, the Canico project may be a similar figure in the long term and both projects could be operational by 2008, so a major investment would be done, would be implemented in 2006. I would say that there is no acceleration, but some adjustments to the market circumstances and also some decisions that are taken by the company. All of those combined with the sharp appreciation of the real. Just keep in mind that we - if we are talking about an appreciation in the last twelve months of 30%; 30% of the real, and we have a major part of our costs in reais, just for this effect you have a major increase in dollar terms of the Capex program, so there is no change acceleration. The major change could be, of course, Canico, and in this figure we are already considering some, if we managed to achieve this ... to conclude this transaction, we are including some disbursement there next year, so...

**Mr. Arias:** And just a follow-up question, the second and last one on your exploration budget and maybe these goes Lancaster, which I believe this on the line. In this quarter, the third quarter, we have seen you doubled the exploration expenditure to a level of US\$ 104 million on the quarter and most of that is on, I believe, in green field exploration projects on an international basis, which, according to you, it should be expense into your income statement. Maybe Lancaster can give us an idea of how the exploration projects are going and should we assume that CVRD should be putting US\$ 400 million in exploration every year?



**Mr. Barbosa:** Well, Lancaster is in Canada Alberto, I am sorry if I did not explain correctly, but Lancaster was there in Vancouver, just trying to reach an agreement that we announced today. I will try to address your point. We have an acceleration, of course, and this has to do with the work we have done in Australia and also in Mozambique and as almost we reached, we are in a way implementing the research and development program of US\$ 375 million, although we might not get there the full amount disbursed this year. But it was an impressive performance on a cash standpoint in the third quarter that should continue in the fourth quarter as exploration in Mozambique and also in Australia are gaining momentum and for the following years, as we do have organic growth as our top priority, I would say that you should expect mineral exploration as a major item in our investment program, but so far we don't have a definition of what would be assigned and allocated to this item next year.

**Mr. Arias:** All right, thanks.

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

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

**Mr. Barbosa:** On my behalf and Martins we would like to thank you for the attention and of course, as usual, we will be available for any other further questions might have. Thank you very much for attending this conference.

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