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Local Conference Call

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3rd QUARTER 2006 EARNINGS

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

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time.

If you should require assistance during the conference, please press the star followed by zero. As a reminder, this conference is being recorded. The replay will be available until November 20, 2006. To access the replay, please dial (55 11) 4688-6225 (access code: 205). The file will also be available at the Company's website at www.cvrd.com.br, at the Investor Relations section.

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

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

With us today in Rio de Janeiro is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First, Mr. Barbosa will proceed to the presentation and after that we will open for Questions and Answers. It is now my pleasure to turn the call over to Mr. Barbosa. Sir, you may now begin.

Mr. Fabio Barbosa: Thank you very much and first of all I'd like to thank you all for attending this conference. I would also like to apologize for my absence in the last conference call as I was working very hard with our team to put the Inco transaction in place and I couldn't make it to our office in NY so I apologize for my absence there. And third, we are trying to improve our procedures at your suggestion, so we anticipated our conference call for the following day, after the release of the results, I hope you appreciate that as well.

Well, today our discussion will be on our results, our 3rd quarter results, but also with some comments on Inco and the perspectives of our company.
Let's start with the 3rd quarter results. We again posted several records in our production indicators; iron ore, alumina, aluminum and copper with increase as

high as 64.4% in the case of alumina as, of course, the direct result of the expansion in the last few years. But I would like to call your attention that in the specific case of iron ore we have been the most efficient producer in bringing additional capacity to the market in the last few years. So this is a very interesting figure that we are presenting, 69.5 million tons of iron ore production, is a direct result of those efforts.

And in terms of the financials as you see there, records in our gross revenues, adjusted Ebit, Ebitda, and net earnings, as I will comment.

In terms of our capacity, our shipments of iron ore, the 3rd quarter of 06 marks the start up of Brucutu, and also the consolidation of our Carajas operations at the production of 85 million tons per year, and, of course, on track to expand this production further next year to 1,100 million tons.
An impressive gross rate that you can follow in the chart in the last figure – the third quarter 06, 12.4% against the same period last year.

All this production has been brought to the market in a way to address the very strong Chinese demand that is showing on the next slide and you can see the size of our effort; only CVRD increased sales to China by almost 60 million tons. It's almost equivalent figure of what we shipped in the third quarter of 06; in fact, China has been the major driver of capacity expansion in our case, as we continue to show, the country continues to show very strong growth prospect and we managed to increase our supply to our Chinese clients by almost 40% in 2006 against the same period in 2005, and of course, given the growth of the Chinese imports and the other suppliers we are gaining market share in this very important and dynamic market. As you can see we are doing that without entering in an excessive concentration of our sales to a single country. China effect represents 19% of our total revenues – it's an impressive and important share of our total revenues but it is also important economy on a worldwide basis, it's the third largest economy in the world. So we must be exposed to this economy and I think we are reaching a very nice balance, even before the effect of the acquisition of Inco but the fact is that out of more than US$ 12 billion in revenues, slightly over US$ 3 billion went directly to our Chinese, were originated from our Chinese clients, US$ 3.1 billion.

In terms of net earnings, again CVRD posted a record and it is the 6th consecutive quarter of above US$ 1 billion earnings and in terms of Ebitda it's the 18th consecutive quarter of adjusted Ebitda growth. So it's an impressive figure and our last 12 months Ebitda as of the 3rd quarter of 06 reached US$ 8.3 billion, with ferrous minerals still representing 77.6% of our total revenues. Of course this share is bound to be reduced as we aggregate Inco figures to this Ebitda figures.

In terms, of course, important items in our agenda, you can see that we are starting to show some results of our efforts, despite some inflationary pressures that you can appreciate in the numbers that we are providing. Our growth of goods sold plus SG&A increased from US$ 1.6 billion to US$ 1.8 billion – from the second

to the third quarter of 06, but I'd like to point out that SG&A alone indicate a sharp reduction of US$ 45 million in the single quarter, so part of our efforts is already noticed in this specific account. I would like to also comment that – we put in our press release – but I'd like to give a more systemic view about our cost reduction efforts, because we are seeking a more structural approach and in fact I could name, indicate at least five major initiatives that should bring more cost reduction over the next few months, as we put in our press release.
First, we are reviewing the scope and average cost of our supplier's contracts. So we notice that in the last few years, particularly outsourced services and materials, the growth of cost in those contracts, increased by over 100% and our production increased by 50% or so.

So there is room, there may be room to capture some savings there and as we focus more on efficiency and productivity in our operations and cost reduction, so we are discussing with our suppliers in a way that the very fact that we moving towards smaller trucks in some of our operations like Fazendao, like even what has been done in MBR right now is a clear indication of our thoughtful… we are seeking alternatives to the current situation in which we have no alternative but buying high cost equipments or deal with high cost of parts and components that are provided by few suppliers. So we are discussing with our suppliers, but also we are trying to reach additional results by changing the way we operate. In some cases like Fazendao, it is clear that we have advantage there, following the good example that we have seen in several MBR operations.

We are also replacing some outsourced services by in-house services because we also notice that today it's cheaper to do it in-house than hiring outsourced services for CVRD. House source is associated with the inflation that I commented with you previously.

We are also planning the closing of some high-cost mines, and the very start up for mines like Brucutu and the expansion of MBR mines should produce structural reduction on cost of production, as they are newer mines, in the case of Brucutu, or more efficient in comparison with some mines that are already in operation. So a combination of closing of high-cost mines and the increase in capacity of most efficient mines should bring an additional downward pressure to our cost.

We also promoted the split of the southern system in two, now we have the southeastern system it is the former, it is basically our Itabira mines, central mines and the Vitoria-Minas railroad plus Tubarao port is an access of the southeastern system and the new southern system is what used to be Ferteco plus MBR, of course, with the access of MRS and Rio de Janeiro port.

So with this we believe that we'll be able to catch more synergies and focus our attention with more details as the previous southern system was too large and the degree on integration of MBR and CVRD was, in a way, lagging behind. Now we can focus on that and a clear example of this process was the inauguration, last

Tuesday, of the highway connecting Jangada and Feijao, former respectively or now, Jangada belongs to MBR and Feijao that used to belong to Ferteco and now is part of the southern system. So this is a small example of what can be done or what can be achieved by integrating both systems.

And finally, we are trying to manage the supply chain in several lines of business; first you noticed the reduction of third parties iron ore, the acquisition of third parties iron ore in this quarter and this year, compared to last year. We do operate more efficiently as some of our competitors from whom we buy iron ore.
Second, we are buying manganese to supply some of our ferrous alloy plants, as this manganese happens to be more efficient and increase the productivity of our ferrous alloy plants and plus, could promote some cost reduction in the long term. And thirdly, we are replacing next year, the bauxite that is currently provided by MRN, we are replacing this bauxite by our our bauxite Paragominas bauxite, that will be fully available in the first quarter of 07.

So this set of measures has a more structured nature and they should use reserves as time goes by and we hope to be able to show to you as we collect the results of these measures.

I would like to turn to the issue of growth, the investments, the effort that we have been implementing in the last few years and you see there the next slide that this year, if we include the acquisition of Caemi shares, our investment would reach US$ 7.2 billion but I'd like to highlight the fact that 86% of this investment is, 86% of this investments could be called growth Capex, so we are growing and that's why we are getting this results; that's why we are able to increase our supply to the Chinese market by 40% in a single year, and something that our competitors weren't able to do. So the result of this investment program is precisely the several, the 17 projects that we delivered in the last five years, starting in 2002, and the last two ones were precisely Brucutu, with 30 million tons capacity and Carajas, the consolidation of 85 million tons per year production.

Despite all this capital invested we have been able also to keep the return on invested capital well above the 50% threshold. So it's an impressive mark considering that our assets there have increased by 5x, since 2003.

In parallel we have been taking care of the balance sheet, of our financial strength and you see that four years later, our balance sheet is much stronger than it was in 2002 and with a much bigger company, and supporting a much bigger company with a production that we hope to achieve this year, of over 260 million tons of iron ore, among others. So total debt increased by just US$ 2,5 billion in this period, but adjusted Ebitda, the interest coverage, more than tripled to 21.6x; total debt to Ebitda is less than half what used to be in 2002 and our leverage is very small. Of course this does not consider the effects of the acquisition of Inco in our balance sheet, but this of course, is in another way, in a different perspective, it's what enabled us to go for a such an ambitious move and at the same time managing to keep our standing in terms of credit perception. So that is what we managed to achieve the last few years; growth, maintaining a very strong balance sheet, or even enhancing it further.

The acquisition of Inco, well you know that we acquired roughly 87% of Inco shares; there will be a general shareholders meeting to consider amalgamation and, of course, to acquire the remaining 13% shares that are there; a new Board was appointed, we are in the process of de-listing from NYSE – New York Stock Exchange – and integration process is going extremely well, very smoothly and so far no surprises or negative surprises, may be a positive surprise is due to the fact that Inco may achieve the top position in terms of nickel production this year; it's a very difficult race, let's say, with no risk but it's in a very good standing and so the integration is going extremely well.

In terms of our financials, after the acquisition we reported to you, we discussed with all the rating agencies and we were able to show them that CVRD was fully capable of repaying the debt that was incurring with the acquisition and without any compromise, without any disturbance in the quality of its credits, and the answer was extremely positive and the fact is that we were able to keep our investment grade rating with all of them.

Our first indication of quality of our credit should remain or even strengthen in the long term was the very fact that we disbursed much less than the acquisition value that was estimated at US$17.7 billion. We disbursed US$ 15.6 billion so far or at least we expect to disburse the US$ 15.6 billion and we are going to use more than US$ 2 billion of all cash, to pay for the acquisitions. So we already started to reduce our total debt. Our assets sales are taking place; you saw the sale of Usiminas and in the press release yesterday, we commented that we digested all the shares that we had of Gerdau; in the case of Usiminas was a major change in the quality of our shareholding there with the interest in the controlling group of Usiminas and of course our focus is on the growth of the steel industry in Brazil for what we have been working very hard in the last few years. But anyway, from the financial standpoint there was an asset sale that we of course will use to redeem that as soon as possible. And the take out of the bridge loan is already in progress, you saw the announcement of debentures in the domestic capital market out of the other operations that are taking place and you'll be duly informed when the operations are concrete.

In terms of information of what would be CVRD after acquisition and we put some information there; our gross revenues of the first nine months of the year would be something like US$ 18 billion, so roughly speaking if current Inco prices remain, we are talking about total revenues of around US$ 25 billion for the end of the year, and very strong figures in the Ebit and Ebit margins given the very good performance of both companies in the first three quarters of the year.

I would like to point out that if you look at the total debt figure, we are not including, of course, the acquisition financing, but even if we consider the US$ 15.6 billion and if we annualize the Ebitda figures, you'll see that we'll be well below the 2x threshold of total debt to Ebitda. So it's a very comfortable position for CVRD.

And a very preliminary aggregation of information of CVRD-Inco, the combination of sales revenue distribution with a sharp reduction of iron ore and pellets shares and the ferrous division, going down from roughly 70% to 50% of our total revenues; copper reaching 7.1%; nickel 23.4%, and aluminum down to 9.4%, so a much more diversified and solid growth, in our view.

Some few comments in corporate social responsibilities, of course, we have to address those issues as we operate now in several different countries and, particularly, in Brazil where is our head quarter. We believe that in this way we'll be creating long-term value for our shareholders and it is the right thing to do. So investment in social actions is key to create a business environment supported of all of them competitors beyond our conviction of this very pragmatic approach; our focus is on primary education, training, and citizenship to force economic and social mobility. We do operate in some areas that are among the poorest areas of the country, so we have to develop, as we put there, to improve the wealth of those communities to bring some facilities, and sometimes, we even have to invest in infrastructure facilities and public utilities.

In the third quarter of 06, we invested US$ 22 million in these areas and finally, in the Indian communities that you may have heard about in the last few days, we do have a very important support program in terms of grant and provision of health insurance, although sometimes this cooperation may be misunderstood by few that they believe they get some additional benefits, what we don't agree and we clearly said that in the recent event.

Turning to the last comment on perspectives growth, again I'd like to make a mention here because we have been saying, we have been forecasting GDP growth and the Chinese growth at GDP growth rate for sometime now, and we have been amongst those that have one of the highest levels of… how do you say that… adherence to what reality showed afterwards, so we are very happy with that, so this means credibility and we have been saying for sometime now that there's a global growth trend, above 4%; we said that in the beginning of the year, we are restating that now and China, in the beginning of the year, we came with a figure of 10% growth rate, to the skepticism of several people that we met by that time. So Chinese is delivering precisely 10% growth rate and next year our forecast is around 9%, so no reason whatsoever to slow down Chinese growth, and demand should remain very strong there.

On a more global perspective with the global manufacturer PMI is also signaling, is very much in line with our perspective of global growth and the particular of the US economy, what we are trying to show is that there have been some adjustments in the investments in residential assets, some real estate assets, but it's no burst of a bubble that scenario that some indicated along the year. So what we may be seeing is a very orderly adjustment, a very smooth adjustment and we don't believe that there'll be a major recession or reversion of the growth trend of the US economy, but rather, as we put there, a pause that will be very welcome in order to fore act some of the imbalances that are observed.

Chinese iron ore imports reached 323 million tons in the last twelve months ended October, just fresh data that we collected; 23.4% growth rate. So we don't believe that this trend will be reversed. We also don't believe that the Chinese domestic iron ore is a threat; in our view, as we put there in the next slide, the actual share of domestic iron ore, in total, or iron ore consumption, is declining, so it's far from representing a trend, particularly for those players that are able to bring more capacity to the market, as it is our case.

And a simple exercise that we ran there showed that in 2006, we estimated a pig iron production of 400 million tons, an implied iron ore demand would be 635 million tons, out of which, 335 roughly would be provided by foreign supply and 300 million tons by domestic producers. But considering what the grades that prevailed there in China, we are talking about, a ROM of 850 million tons per year, which is a major challenge, at least from the logistic point, stand point, not to mention the cost, and then associated with this domestic production of 300 million, the total waste entailed we are talking about 3.1 billion tons of removal of material that should be performed in order to produce that. This is, just to give you an idea; Brucutu waste strip ratio is 0.4%, sorry, 40%, so, for each ton, each ton of iron ore we move, we have waste of around 400 kilos. So in this case, for each ton we are talking about 10 tons of waste entailed, so it's a key difference, particularly if China consolidates its presence among the market oriented economy.

We expect the global iron ore market to stay tight for the near future, not only ourselves but FISA as well is saying the same, because they are forecasting 13% average growth rate for the Chinese steel production from 2006 to 2012.
Middle East is something that you should also pay attention to, it's booming and a lot of investments, as we put there, the growth cooperation country-to-country that are: Saudi Arabia, United Emirates, Kuwait, and Oman, Qatar and Bahrain, they are growing dramatically and very good perspective. And on the supply side we believe that in the iron ore, as we put before in previous presentations, in the iron ore export we ought to lose steam due to the requirements of its domestic steel industry.

Turning to our new business: nickel. Nickel inventory are minimal and demand is growing strongly and you see there that the perspectives for the market are very good and we also expect this market to remain very tight for the next few years. Global growth and Chinese investment in stainless steel capacity continue to drive demand increase on the demand side; there is no major change in the technology that could allow a reduction in the austenitic ratio in the long term so prices have a more structural nature, actually, and there is also the demand coming from the non-stainless steel areas, particularly in aero space, energy and battery industry. So it's a very good perspective for the demand standpoint, and the supply side is very much constrained by the technological challenges and very high Capex quotas as you may appreciate by our own project and other competitors in this area.

A bit of comment on alumina: in the past we were criticized by leaving a very small part of our alumina production in the spot market, well, I believe that now we show our point; in fact, we have less around 5% of our production sold in the spot market and this, for the next couple of years and this will protect us against the volatility associated with the action of the Chinese players in this market, particularly the alumina market, whereby they are importing a lot of or an important amount of bauxite and processing alumina and depressing alumina prices in the market, so in this concept, our average contract prices, long-term prices, are in the range of 12,5 to 13 to 14% and the current spot prices are around 9% of the LME price.

Copper inventories are critically low, as we put there, there are deficits in the concentrated refined metal market and thus the result is historic records in terms of prices – that should remain, in our view, reflecting the scarce of this particular material, considering the very good perspectives of the world economy, and China in particular and the restrains, the constrains in the supply side.

So, in some areas, we put in the last slide and this is supported by an econometric pass that we ran here, that Roberto Castelo Branco and his team, did a very interesting exercise showing that what we have been telling you intrinsically that… and now it's supported by an econometric test. It's aside the effect that there is no reversal to the mean in the attempt that we ran for the several materials including iron ore and aluminum, copper and nickel. So it means that what we have been saying about a secular change, a structural change in the level of relative prices of raw materials is very likely to be the correct answer to what we have been observing in the last few years. So there is much more value to capture from this very long cycle; there is a structural change that will, in our view, benefit the most efficient producers in the industry.

With that I will conclude my initial remarks, and myself, Roberto Castelo Branco and his team will be available for any questions you may have. Thank you.

Q&A Session

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

Our first question comes from Daniel Altman of Bear Stearns. Please go ahead.

Mr. Daniel Altman: Thanks and congratulations for the great results. I guess two questions; firstly related to Inco, can you, maybe, share with us when the shareholder vote will take place that will allow you to close up the merger between the two companies? And secondly, on the iron ore business; the growth that we saw in China, clearly next year, in 2007 you are going to need to see with the new volumes that you have coming on mines, I guess you're going to need another large incremental shipment to China; I'm just wondering if you have… your idea of selling another 25 million tons or so next year, if you think most of that will go to China and whether contracts are set up or whether you plan to take further market share in some of your other traditional markets. Thanks.

Mr. Barbosa: Ok Daniel, thank you. On your first question, we don't have a final date yet, there are some formal procedures that should be followed and the amalgamation process and the request of amalgamation that will require a general shareholders meeting, so this process could take some two months or so, but we don't have a precise date yet. In terms of volumes, our expansion next year consider that we are going to produce some 300 million tons, from 265 roughly that we may be producing this year and the bulk of this increase will come from the production of Brucutu, that should reach 23 million tons against 12 this year and Carajas with 15 to 16 million tons more, so... and I would say that the majority of this increase, of this 35 million tons will be directed to the Chinese market, no doubt about it.

Mr. Altman: Ok, thanks very much.

Mr. Barbosa: Thank you.

Operator: Thank you for your question Mr. Altman. Our next question comes from Mark Butler, from Aberdeen Asset Management. Please go ahead.

Mr. Mark Butler: Hi. I wonder if you could go through the reasoning behind selling the Usiminas shares at a discount; why you chose 90 days prior to April 15th – my calculations have come to about 20% discount to the closing price on November 3rd, the day prior to the announcement.

Mr. Barbosa: Thank you Mark. The negotiation of this transaction took place, actually, seven months ago and it also… it has to consider the conditions by the time of the negotiation and the prices that were prevailing at that time, the conditions, the fact that we were outside the controlling group and, in a way, we are paying a price for the additional liquidity and the position we are getting within the controlling group. So I would say that there is strategic and actual value embedded in this and don't forget that we are going to sell the remaining shares that will not stay in the controlling group through a public offering and that we will announce when it's ready.

Mr. Butler: Thank you.

Mr. Barbosa: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star (*) key followed by the one (1) key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press star (*) two (2).
We do have a question from Sayan Gosh from SAC Capital. Please go ahead.

Mr. Sayan Gosh: Hi. Could you give us an update of how the situation with the possible take out of minorities and Inco remain shares is progressing?

Mr. Barbosa: Well, this, as I mentioned before will proceed as per the procedures established in the amalgamation process in Canada. So this is a formal process that requires a shareholders meeting and that should take some couple of months to be fully completed. So we believe that early next year or late this year this process should be concluded, more likely to be early next year.

Mr. Gosh: I thought this was more to do with the regulator deficient in Indonesia rather than the shareholders meeting.

Mr. Barbosa: Oh, you mean the Indonesia?

Mr. Gosh: Yes, Inco Indonesia.

Mr. Barbosa: Oh no, the Indonesia we are discussing with the authorities what would be the procedure as we do want to comply and we will comply with the requirements of the Government there, so apparently there is a conflict between the Indonesia legislation that is being discussed and we believe that we'll come to a mutually satisfactory conclusion in a very short period of time - In our view.

Mr. Gosh: Thank you very much.

Mr. Barbosa: Thank you.

Operator: Thank you Mr. Gosh. Our next question comes from Mr. Edmo Chagas with UBS. Please go ahead.

Mr. Edmo Chagas: You say that you had about 15.2 million preferred shares in treasure and by July you had about the same number. So I understand that for the course of the 3rd quarter….

Mr. Barbosa: I am not hearing.

Operator: Just one moment. Just one moment, please. Mr. Chagas, please continue.

Mr. Chagas: Yes. Hello?

Operator: Yes, please continue with your question. Thank you.

Mr. Chagas: So my question is regarding your shares in treasure. I understand that from the 2nd quarter conference call to today, didn't acquire more significant number of preferred shares. But part of your financing for Inco, I just want to understand that, you've planned to sell part of those shares in treasure or if you could do any restructuring on the voting shares where you hold about 28.3 million shares, voting shares in treasure or if they could be sold as part of the financing of Inco acquisition.

Mr. Barbosa: Edmo, we are not considering at this moment any operation with this characteristic involving the shares that we have in our treasure.

Mr. Chagas: Ok.

Mr. Barbosa: Thank you.

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

Mr. Barbosa: Ok, well, thank you very much and myself, Roberto and his team; Severino and his team will be available for any other question you may have during the next few days. Thank you very much.

Operator: Thank you for attending this conference call. The call has ended you may now disconnect your lines. Thank you.
