

Conference Call Transcript Fourth Quarter 2002 Results February 28, 2003

Operator: Ladies and gentlemen, thank you for standing by. At this time all lines are in a listen-only mode. Later there will be a question and answer session. Instructions will be given at that time. If you should require assistance during the call please press star zero (*0). As a reminder, this conference is being recorded. At this time I would like to turn the conference over to Mr. Curtis Smith from Thomson Financial. Please go ahead sir.

Mr. Curtis Smith: Good morning ladies and gentlemen and welcome to CVRD's conference call to discuss 4th quarter 2002 results. A slide presentation to accompany management opening remarks is available on the company's website at www.cvr.com.br. 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 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; Roberto Castello Branco, Investor's Relation Director and Otto Marcos, Chief Controller.

First Mr. Barbosa will comment on the 4th quarter 2002 results and afterwards Management will be available for a question and answer session.

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

Mr. Barbosa: Thank you very much. Good afternoon and thank you all for attending this conference.

I would like to start by saying that CVRD has had a very good year in 2002. In fact in a year where the international scenario was not very favorable with the slow down in world economy growth, some pressure, downward pressure in commodity prices, Argentina crisis and even though Brazilian situation regarding the political calendar, we think we performed very well in 2002.

Our bottom line showed a result of US\$ 680 million for 2002, but this result was mostly affected by the sharp devaluation of the exchange rate observed in 2002 of over 50%, that affected our net financial expenses.

Anyway, on the operational side we think CVRD had a bright year. In fact, despite what I just mentioned regarding the world economy and the fall in prices in several markets we had records in sales, revenues and EBITDA; records in iron ore and pellets, ferro-alloy, potash, aluminum and general cargo.

The first chart shows you how we performed in terms of iron ore and pellets. This year, in total we sold 164 million tons of iron ore and pellets that compared to 148.7 million tons in 2001. It was very impressive increase considering the market position in 2002.

A new record was achieved in the fourth quarter, in which we managed to sell a total of 43.9, almost 44 million tons of iron ore and pellets. Records were observed also in the logistic business in terms of the fourth quarter general cargo totaled 14.7 million net tons per kilometer in 2002 compared to 12.9 million net tons per kilometer in 2001, the major achievement again and the increase in 14.1% in our provision of logistic service for our Brazilian clients. Although the logistics business, its revenues are mostly denominated in Reais and they are affected by the depreciation of the exchange rate, we can see that if we take out iron ore and pellets transportation, related transportation, the performance of the business was extremely good and we are very happy with that.

The next chart shows you the increase in our net revenues, gross revenues are better 4.8% compared to 2001 and I will call your attention to the fact that in average our iron ore and pellet prices were reduced by 2.5% in 2002 compared to 2001. So we managed through the additional sales of volumes to off set this negative price effect and we managed to achieve a new record in terms of gross revenues U\$4.2 almost U\$4.3 billion in 2002.

By destination we continue to have very diversified markets – Brazil around 30% of our total gross revenues, and part of these revenues are denominated in Reais. That is mostly related, as I mentioned before to the logistic business, but we have about 34% of our revenues in Europe; Asia, including Japan, about 18% - 18.5% with a very strong presence, as you know, in China. China in fact was best than Japan this year in terms of volume sold. Overlapping countries, 7.1%; USA 6.2, Middle East 4.5 – so it is very diversified destination in terms of markets.

As for currencies, 89% of our total revenues, gross revenues, were Dollar related or Dollar denominated so it gives us, as you know, a major competitive advantage in a country that due to the balance of payment profile will have for sometime yet, despite the important improvement observed in the last few years, this country will have for sometime yet important moray needs in terms of financing the balance of payments as a whole. So there will be, in the near term or in the next few years, some structural pressure on the exchange rate and CVRD will benefit from this effect for sometime due

to the revenue structure, 89% Dollar linked and about 30% only of our cost is Dollar related.

In terms of products we have about two third of our revenues in iron ore and pellets and here we would like to highlight the increased importance of the aluminum chain in our business due to the consolidation of Alunorte from the beginning of the second half of this year. The aluminum chain pointed 10.8% of our gross revenues, surpassing transportation and logistics service by a very slight margin as you can see by the chart.

Manganese and ferro-alloy are growing businesses in CVRD, an extraordinary performance in 2002. We managed to sell 522 thousand tons of ferro-alloys in 2002, compared to about half of this figure in 2001. It is a major improvement.

Potash is 2.1% and I would like also to highlight the 45.3% increase compared to the figures observed in 2001 in terms of tonnage. We sold 731 thousand tons of potash this year – it is above our capacity in our Taquari Vassouras mine and we had to use our inventories to deal with the very strong demand that was observed in our Brazilian market.

The next chart shows you a comparison on evolution of our net earnings line and the very strong sensitivity to exchange rate volatility and that is very behind our decision to implement a new dividend policy for the company and we can see how volatized this line has been in the last few quarters.

In December due to the appreciation of the Real, we have a positive result and net earnings reached US\$ 569 million in this quarter against a loss of US\$ 150 million in the third quarter of 2002 despite the strong cash performance the company had throughout the year.

This chart shows you the position of our total debt by the end of 2002 and this is strongly associated with the behavior of the financial market in the second half of 2002, when the risk evasion has prevailed mostly for emergent economies, in particular for Brazil and the fact is that we amortized within several trade lines we had because the conditions in terms offered, even for companies like CVRD, were not suitable to our needs and we decided simply to use our cash position to amortize this debt. As you recall we had about US\$1.4 billion in cash position by the end of September and this ended up in 2002 with 1.1 billion approximately in liquid assets by December 2002 and the main change was due to this environment in the financial market that was not positive.

In terms of debt leverage and interest coverage we remained our very solid position in financial terms with EBITDA interest rate with very comfortable levels at 6.65, a little bit down from 2001 due to some shortage in maturities in our liabilities; gross debt EBITDA still even more comfortable than by the end of 2002 and grow debt in the

price value showing some leverage of the company in this period of 2002 due to the facts that I have just mentioned.

The next chart shows you the continuous implementation of our important and aggressive investment program with capital expenditures reaching almost US\$ 900 million and one third of this in ferrous minerals in order to deal with a very strong demand and to be able to increase our production capacity in the northern system mainly through improvement in our logistics capabilities in Porto da Madeira port and the São Luiz plant that started operations in the second half of 2002.

Logistics: we have the acquisition of US\$ 28 million in locomotives and additional wagons in order to meet the demand requirements as I mentioned before, the sharp increase in general cargo.

Non ferrous minerals is basically an important investment in Sossego project that we invested US\$ 75 million in 2002, also we have here about US\$ 51 million regarding the acquisition of the Salogo project, the share of Anglo America in Salogo is US\$ 50 million, US\$ 51 million.

Energy: we invested, to conclude the Funil plant and we invested and will continue to invest this year in order to commission Candonga and Aymores plants by the end of this year. We are estimating the commissioning of these two units by December.

Aluminum: we started to consolidate Alunorte from July onwards and here we have the investments related to the third line of Alunorte plant, the plant is already in its ramp up process and is now capable of producing 2.4 million tons of aluminum per year.

So it is very well distributed investment, capital expenditure is strictly in line with our strategy, our growth strategy as we have been commenting with several market participants.

Thank you very much. I will be available myself and my colleagues here, to any questions you may have. Thank you.

Operator: 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 key (*1) on your touch-tone phone now.

If at any time you would like to remove yourself from the questioning queue, press the pound key (#). Please restrict your questions to two at a time.

I would like to mention that today's conference call is being held exclusively for financial analysts and investors. We kindly ask reporters to who may be participating in this

conference call to please direct any and all questions to the company's press relations department.

Operator: Our first question comes from Mr. Marcelo Kayath with CSFB.

Mr. Marcelo Kayath: Hello Fabio, good morning. My questions are all related to your costs and expenses and I am referring to the Brazilian Gap numbers. I'm sorry about that, I know that you liked the US Gap numbers but I like to look at the Brazilian Gap sometimes and when I look at page 11 of your press release I can see here your break down of cost of good solds and then it has attracted my attention the major increase in materials from the third to the fourth quarter and also there seems to be a major increase in the line called acquisition of products. So my first question is: can you please shed some light on these two items of cost of goods sold? And the second question is: can you also discuss a little bit the increase in sales expenses in Brazilian Gap that we have seen this quarter? Thank you.

Mr. Fabio Barbosa: Thank you Marcelo for your questions and besides being related to the Brazilian Gap, has also to do with the US Gap. What happened is that we found that we were making wrong classifications in some important items in terms of the distribution throughout the year. In other words, the EBITDA figures overall for the year, are not wrong, they are precisely right but the distribution between the third quarter or the first three quarters and the fourth quarter was affected because we found that was a wrong classification in some items and we adjusted those items fully, in the fourth quarter of 2002.

So I would ask you to avoid the comparison in this precise line because it is distorted by, unfortunately, by some items that were accrued unduly in this item of cost of product.

Mr. Marcelo Kayath: Would you say the same thing about acquisition of products line? I think you are referring to the material's line but would you say the same thing about the acquisition of products? Will we see that line continually to grow given the demand that we are seeing in CVRD's products?

Mr. Barbosa: Marcelo, this has to do mostly with the acquisition of pellets in order to meet our clients' demand.

Mr. Roberto Castello Branco: And as pellets are in US Dollar denominated we pay US Dollar price to the JV's, this increases substantially. Not only the volume but the cost increases substantially, because there was a sharp increase in the acquisition of pellets from JV's.

Mr. Marcelo Kayath: Now here is the main issue: what we are a bit surprised this quarter is that this was a quarter where the average by the Real devalued by an average

of 18% in the quarter and then we had volumes that were 7% higher, then your EBITDA margins came down.

Mr. Roberto C. Branco: You have to compare not the exchange rate at the end of the third quarter with the exchange rate prevailing at the end of the fourth quarter but the average daily exchange rate. So, thinking in terms of this, there was a depreciation of the Real against the US Dollar and this is added to the increased acquisitions of pellets from the JV's vis this number.

Mr. Marcelo Kayath: Now Roberto, the question is this: once if you reallocated the cost, because Fabio is saying that there is a big impact on the cost side because of this reallocation...

Mr. Roberto C. Branco: They are two different things. In the case of materials the explanation Fabio gave to you is fully correct – there was a reallocation of maintenance expense so this increased substantially cost of goods sold through this channel. Referring to acquisition of products, there is the effect of the increasing volumes of pellets acquired from the JV's and the effect of the appreciation of the US Dollar against the Real in terms of average, comparing the average exchange rates for the fourth quarter against the average exchange rate for the third quarter.

Mr. Fabio Barbosa: Marcelo, there are clearly two issues here as Roberto was mentioning: first, unfortunately, and we apologize for that, our mistake in terms of classification of some important items, that distorted the figures for the comparisons between quarters, but they are strictly correct for the year. And the second is the fact associated with a very strong market, very tight market we have had in the last quarter that made us buy pellets facing this very tight market, reducing our average margin compared to regular acquisitions. That is the major explanation in this item. Again, I apologize for the unfortunate mistake made in the third quarter, although corrected in the fourth quarter.

Mr. Marcelo Kayath: Fabio, it would be helpful if the company could make available to us some sort of pro-forma margins, even if it is not an official number, so we can understand what the real trend would have been if costs had been properly allocated in the third and the fourth quarters.

Mr. Fabio Barbosa: OK, we will do that, but again, the figures for the year are correct and you can make some inference from those figures. But again, we will provide these figures for everyone.

Mr. Marcelo Kayath: Great. Can you also comment on the sales expenses please?

Mr. Fabio Barbosa: Just a moment. On the Brazilian Gap or..?

Mr. Marcelo Kayath: On the Brazilian Gap, please. Because I understand that there was a provision for doubtful accounts of R\$ 13 million.

Mr. Fabio Barbosa: Oh yes, this was due to the uncertainties regarding the clearance of our energy settlement unit MAE – I don't know how to translate this, Marcelo.

Mr. Roberto C. Branco: Wholesale energy market

Mr. Fabio Barbosa: Wholesale energy market, yes. And we have credit against MAE, the wholesale market, and due to the uncertainties related to that we decided to make a provision.

Mr. Marcelo Kayath: Any other item that affected this line this quarter?

Mr. Fabio Barbosa: No, I think this is the most important one and again I hope the MAE starts to work properly and that we could revert that in the near future. But we found that it would be more appropriate to take a conservative approach towards it.

Mr. Marcelo Kayath: OK, well I think that my colleagues will have questions as well. Thank you very much and I see you soon.

Mr. Fabio Barbosa: Thank you. See you soon.

Operator: Ladies and gentlemen, please restrict your questions to two at a time.

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

Mr. Alberto Arias: Yes, good morning gentlemen. I have a couple of questions: the first one is with regards to the results and the second is with regards to your project developments and feasibility studies. On the results, a couple of things are still not very clear: when you look at your logistics revenues, despite increase in volumes that you have mentioned, in US Dollar terms under your US Gap accounts, we see a dramatic decline of logistics revenues, last year in the fourth quarter US\$144 million coming down to US\$128 in the third quarter, coming down to US\$ 88 million in the fourth quarter. I know that there has been some seasonality here and the effect of the currency but such a dramatic decline in logistics revenues in an area that is such an important part of your Capex for this year, could tell us what is going on this item? And the second part of this question on the results is looking at your EBITDA and what you call non-recurring gains, it seems that in the fourth quarter in your US Gap numbers, there was a non-recurring US\$ 118 million gain and we don't know exactly where it is distributed. If you could tell us what are these non-recurring gains, because we look at, for instance FG&A and FG&A is US\$ 22 million in the quarter, which does not seem to be right, there must be some kind of gain imbedded in that. Could you please tell us more about your non-recurrent gains in the quarter?

Mr. Fabio Barbosa: Thank you for your questions, Alberto. As for logistics we have several effects combined. First, one of them is the effect of the seasonality of grains transportation that affect our results this year; second, the performance or the behavior of the exchange rate due to the fact that logistics business are in Real denominated; third, there is a reduction in this scenario business. We sold five ships, we are in the process of selling the remaining five this year, plus there was a reduction in revenue in CVV terminal in Vitoria, 6 million, and third there was a reduction also in the charter containers in the Sepetiba port. I think the combination of all those factors explains the behavior in logistics.

Mr. Roberto C. Branco: We are mentioning in the press release that logistics revenues were down for the second consecutive year in a row and this is explained by the depreciation of the Real, a loss of US\$ 20 million revenue that were obtained from the sale of service to companies that we have acquired that were important clients of the Vitoria Minas railroad Samitre and Ferteco; and the Doce Nave reduction of dried bull cargo shipping reduced revenues by US\$ 140 million. Quota by quota third quarter against fourth quarter we had a reduction of revenues from Doce Nave US\$ 3 million; CVV terminal US\$ 6 million; the containers at the ports US\$ 3 million and CVRD logistics revenues by US\$ 8 million due to seasonal factors. Again there was a reclassification error; the right number in the third quarter is US\$ 118 million and for the fourth quarter it was US\$ 98 million. So the reduction it was not US\$ 40 million, but US\$ 20 million fully explained by these four components.

Mr. Alberto Arias: All right. Because the press release says something different: 128 and 88.

Mr. Roberto C. Branco: Yes, but that is wrong. We made a mistake. For the year as a whole, the revenue, the amount of the revenue is correct but it is not correct for the two last quarters of the year; third quarter is US\$ 118 and fourth quarter US\$ 98 million. So the decrease, the quarter decrease was half of what was reported.

Mr. Alberto Arias: The second part of my first question was what is this non-recurring gains that are implied in your EBITDA calculation and making reference on how are they distributed. You see the FG&A coming down to US\$ 22 million, may be there is something there as well, because US\$ 22 million is not the normal quarterly FG&A for CVRD.

Mr. Fabio Barbosa: Yes Alberto. We had unfortunately wrong classification in provisions in the first quarter that related to MIS that was wrongly allocated to this line and this was corrected in the fourth quarter. So the amount is about US\$ 20 million so you have to adjust it: third quarter minus 20 million and increase the fourth quarter, 20 million. Again, I ask you, we are trying to be very transparent on that to provide you with the explanations deserved and required. We again apologize for any trouble it may cause to you but I would like to stress that the annual figures are correct. It is an unfortunate mistake. Again, thank you.

Mr. Alberto Arias: The second question was on the feasibility study of your projects: you have a significant amount of projects on your pipelines that have not completed feasibility yet and we are getting very close to the period in which you are anticipating starting construction. If you could please comment on have you done or completed any feasibility studies beside the Sossego, which is currently under construction and how do you see the royalty proposal of a new mining site in Brazil? Is that going to affect the economic liability of some of these projects that you are anticipating to develop?

Mr. Fabio Barbosa: Well, the first part of your question: Sossego, as you know, we are investing US\$ 253 million this year and is scheduled to completion in mid 2004. As you know, we are considering four alternatives for the Salogo project and we haven't decided yet what will be the one to be adopted and in this sense I wouldn't say that the feasibility study is concluded. We have several tests being made but we have not reached a conclusion yet. As for the nickel project of Vermelho we have a pilot study going on but also we are, as you know we are very cautious, prudent in taking investment decisions. We know there is a good opportunity in the several deposits in Carajá, but we are going to proceed very cautiously and so far they are in our pipeline but we haven't decided yet if we go ahead in the alternative A, B, C or D.

Mr. Roberto C. Branco: We have three projects under the feasibility studies that will be concluded soon: Igarapé Bahia in phase four; 118 copper project and we have the Paraguminas project, the bauxite mine development, that has a feasibility study being concluded.

Mr. Alberto Arias: And on the royalties?

Mr. Fabio Barbosa: Well, on the royalties we took notice of the proposal by Mr. Neves and both by the Government of Para as well. It could represent important cost addition to CVRD's performance and that's why we don't think it could prevail in the near future because it would affect our export capacity, it is like taxing the largest exporter in Brazil to local tax, it is like reducing the potential investment we would have made otherwise because it would represent, it could represent a major reduction in the competitiveness of the several projects and increasing any cash cost could represent closing of several mines, etc. If you take an international comparison, you will see that the levels proposed are absurd compared to any standard you may have and the current royalty level, it's quite an international standard, even some countries that have no taxation at all. So, we don't think this proposal would go ahead, the country is tired of additional taxes, tax is already very high and I don't think a proposal like that could fly without the general discussion about the tax reform that will take some time and may be will be much more limited than the new Government and some Governors would like to see.

In sum, I don't think it's feasible, I don't think they would go ahead with this proposal knowing that it could affect in an important fashion an important player like CVRD and

not only CVRD, several other Brazilian miners that would simply have to close their business because they would not afford this additional taxation. It's not, of course, the case of CVRD but several miners that have more limited business than ours, they would be strongly affected by this proposed taxation.

Mr. Roberto C. Branco: These royalties issue is against two key priorities of the new administration - job generation, export increase. As Fabio mentioned, the royalty increase is an export tax, is equivalent to an export tax on mining and secondly, given the fact that it would not stimulate or force the closing of several mining projects, it is against the priority of the Government for job generation. And there is no point in comparing Brazil to Australia because we have a much higher cost of capital than Australia, then a royalty is a tax on net revenues so it would contribute to narrow our margins and to reduce return on investment and the consequence by the end of the day is turning expected rate of return on investment less than the cost of capital. So it is not consistent with the reality of the Brazilian economy.

Mr. Alberto Arias: Thank you very much.

Mr. Fabio Barbosa: Thank you Alberto.

Operator: Our next question comes from Mr. Sebastian Luparia with JP Morgan.

Mr. Sebastian Luparia: Good morning everyone. My first question is related to net average selling prices in the quarter: if looked through US Gap especially in the case of pellets, prices show an interesting behavior. I don't know if you can expand on that and elaborate a little bit on what happened in the quarter.

Mr. Fabio Barbosa: OK, thank you for your question. The fact is that part of the revenues that were attributed to iron ore are related more to pellets. So there was an information about iron ore revenues that was inflated compared to what should be in reality and the pellet was artificially reduced. So we are going to provide complementary, additional information on that in order to make the necessary adjustments.

Mr. Sebastian Luparia: And Fabio, the same happened in the fourth quarter of last year because we see an interesting jump through the year, from the based double report on the fourth quarter last year and then prices come down again in the fourth quarter of 2002, no? So if we see the fourth quarter of 2001 the level was very, very low.

Mr. Fabio Barbosa: Yes, we are going to provide you to compare figures. Again this is some accounting procedures that we revised including some that concentrate in the last quarter – some adjustments that are required. For the whole year there is no change, but in the distribution quarter to quarter may have some changes that could affect your analysis and we are working hard on that to correct and please accept our apologies for the mistake.

Mr. Sebastian Luparia: OK. Fabio if I can continue with another question on the shipping side: can you elaborate a little bit how you see shipping rate evolution – they have been going up the last couple of months for various reasons. How do you see that? Are you concerned about any implications from that, especially in the Asian market. Can you elaborate on that?

Mr. Fabio Barbosa: As you know, the markets are very tight and the shipping and freights reflect that. This is good news for our business and it's good news in terms of the price negotiations that we are having right now. It means we may have an additional cost but it means that the market remains very strong and there is a very favorable environment for our businesses. So, I would put in this perspective and of course we are affected by any cost increase in freight but the quality of iron ore and the fact that we are able to provide tailor-made solutions may reduce or mitigate the disadvantage of any cost increase.

Mr. Sebastian Luparia: OK. Thank you Fabio. And then in my last question, I am sorry to come back on the accounting issues, but looking to the US Gap press release on page 10, you have an others line that is very well volatized through the year some of US\$ 119 million for 2002. Can you elaborate in what do you include in there and why that volatility?

Mr. Fabio Barbosa: Which page, sorry?

Mr. Sebastian Luparia: Page 10 of the press release for US Gap numbers.

Mr. Fabio Barbosa: Which line you are mentioning?

Mr. Sebastian Luparia: Others

Mr. Fabio Barbosa: Others.

Mr. Sebastian Luparia: Yes, which totaled US\$ 119 million for 2002.

Mr. Roberto C. Branco: This is due to our reclassification that was made. When we sold the assets of Floresta do Rio Doce we obtained a capital gain of US\$ 49 million, in the third quarter. This was accrued as capital gain on sales of investments. In the fourth quarter was reallocated to other operation revenues, and this was eliminated from the line of gain on sale of investments.

Mr. Sebastian Luparia: OK, thank you Roberto, thank you Fabio.

Mr. Fabio Barbosa: Thank you.

Operator: Our next question comes from Mr. Thomas Souza, with Merrill Lynch.

Mr. Thomas Souza: Good morning gentlemen. I have two questions: one is on the fourth quarter results and second might deal a little bit on the strategy side. The first question on the quarterly results like was previously mentioned and I understand there was several reclassifications or what-not. But anyhow, the logistics, the manganese and ferro- alloy business in the kernelling which are small in proportion to iron ore, of course, was strongly disappointed in the fourth quarter and I was wondering what management could give the market in terms of guidance for these three businesses given that they have performed so poorly in the fourth quarter. May be in terms of revenue growth or revenue target.

Mr. Fabio Barbosa: OK Thomas, thank you for your question. Well, logistics we think we answered the question that different issues involved, first distribution mistake that was made and the difference is US\$ 20 million from one quarter to the other. And the other several, more related to business like the reduction of Doce Nave fleet, the reduction on CVV results, Sepetiba as well, seasonality of general transportation, so I think it is there. The other two questions are on the manganese business and kernelling.

Mr. Roberto C. Branco: In the kernelling business in terms of reported numbers, there was a sharp decrease in revenues from US\$ 13 to US\$ 2 million. In reality this was wrong again we apologize for that. Revenues decreased from US\$ 13 million to US\$ 12 million but there was no impact on profits because the difference was allocated in costs. Costs were inflated while revenues were deflated so in net terms there was no change, no impact in net income or EBITDA.

For the kernelling business in general we have been not deferring well due to a marketing problem. We increased our capacity to 600 thousand tons now we are making efforts to improve our marketing abilities. We developed another product –it's not a commodity like other products. We are developing other products, we have much more aggressive marketing programs. We believe that the scenario will improve in this year relatively to 2002 and 2001.

With respect to manganese and ferro-alloy there was a decrease in the fourth quarter, but it is a temporary decrease. For instance, in the first day of 2003 we have a substantial shipment of manganese ore that was delayed for an accident. It was not accrued in the fourth quarter so there is no change in the plans. The main client is the steel industry, the steel output is booming around the world. In January 2003 against January 2002 there was a 10.7 increase in production, so there is no reason for concern about the short-term scenario for manganese and ferro-alloys. On the contrary, we are confident in this kind of business, we restructured our operations, financially and operationally and we acquired a company in Norway – Rio Doce Manganese Norway – where we will be able to address the United States market that is a new market for CVRD, from Brazil it was not possible to do that due to anti dumping charges against the

Brazilian products. Now, from Norway, we will be able to export to the United States. It is a very good operation, the acquisition was made at a very low price – we paid US\$ 17.6 million for a company that has US\$ 7 million in cash, we are going to invest US\$ 2 million to transform the facilities from the production of Ferro chromo to the production of Ferro manganese alloys and to access from Norway, the West market.

Mr. Fabio Barbosa: And Thomas, just to remind you, the business as a whole in 2002, in Dollars, the revenues increased by 8%, around 8% (US\$ 24 million) and if you look at the figures of fourth quarter 2002 compared to the fourth quarter 2001 you will see the trend is the same. So, put in perspective as Roberto mentioned, the acquisition of that is important gate to strategic market in the US. We are very happy with the manganese and Ferro alloy business and we think that they are going to provide good results for the company.

Mr. Thomas Souza: OK, thank you very much. And my second question is in regards to the possibility, we understand that CVRD might actually finance Mitsui's entry into Valepar, some are concerned with the possible corporate governance that may arise from this transaction. So what could management tell us in regards to this possibility?

Mr. Fabio Barbosa: Well we are not aware of this possibility as you mentioned and this is a shareholders issue, we are not discussing here the management any issue related to this possibility. I cannot comment on that because I am not taking part of any possible potential discussion of this issue.

Mr. Roberto C. Branco: I would like to emphasize that the corporate governance model that was launched late 2001, was incorporating the new by-laws of the company formalized there. There are very clear definitions of roles and responsibilities for the board of directors; the executive committee established the role of the committees. There are five committees that are already functioning regularly, so there is no reason for concern about change, a minor change in the shareholding structure of Valepar.

Mr. Thomas Souza: OK, thank you very much gentlemen.

Mr. Fabio Barbosa: Thank you.

Operator: Our next question comes from Mr. Daniel Altman with Bear Stearns.

Mr. Daniel Altman: Hi, good afternoon. It is Daniel Altman from Bear Stearns. I have two questions for you. First of all on the financial expense side you show another very strange volatile result, you show a financial expense of 173 in the third quarter and only 23 in the fourth quarter. I wonder if you can explain how that can happen. The second question I have is taking into account the changes in allocation for some of your numbers, are you still comfortable with the EBITDA number that you put out of 406

million in the corresponding margin or you would like to take the opportunity to put out a new number for EBITDA? Thanks.

Mr. Fabio Barbosa: Thank you Daniel. The first question – this change, we are right this time we did not make a mistake there. This line changed due to the reversion of the provision of CSN shares held by Valia that are guaranteed by CVRD and this represented about US\$ 40 - 42 million of provision that was reverted. The second question was?

Mr. Daniel Altman: On the EBITDA – you put out a number of 406 million and given that we are shifting around a lot of the operating numbers here and also I noticed that in your EBITDA derivation, you have a line called other operating expenses, which I believe shows a negative 74. So, I am wondering if you still think that the 406 is a representative number for EBITDA and if the margin, the corresponding margin also, you are comfortable with, still? Thanks.

Mr. Fabio Barbosa: Thank you Daniel. Well, we have no doubt the EBITDA figure for the year is correct, US\$1,789 billion, this is strictly correct and what we are going to do is to revise our quarterly figures to check if there is any change and we will provide the market with full information on the procedures about that. Again, please accept our apologies.

Mr. Daniel Altman: Thank you.

Operator: Our next question comes from Mr. Andres Perez with Morgan Stanley.

Mr. Andres Perez: Hi good morning Fabio and Roberto. Just two questions: one on the cost and also on the logistics, you mentioned that there were a number of new reclassifications, I just want to understand this, is that all from operating expenses up to cogs or there were also some previously capitalized and they are now being expenses?

Mr. Fabio Barbosa: Thank you Andres for your question. There is no change planned, there is just the adjustments we have to make, what Roberto already mentioned regarding logistics, the differential between the third and the fourth quarter.

Mr. Andres Perez: And also another thing I noticed within the cogs, you mentioned in the press release that the part of the increase and acquired iron ore was due to the demands from your clients for specific grades. So, do you view this as a trend that we should expect to continue in terms of what your clients are looking for or this is more of a one-time item?

Mr. Fabio Barbosa: No, of course you see the levels in investment capital expenditures we are programming for 2003 is also to deal with this demand. But the fact is, the markets are very tight and the supply of iron ore is not elastic and as you mentioned and we have commented already, we have almost tailor-made solutions for our clients, so the

mix and the planning of the total production of the company was done some months ahead and in order to deal with the temporary shortage. We may have to buy from third parties in order to meet our clients' requirements, but this is temporary figure, we should not consider it as a permanent one. This is a result again of the very strong iron ore market that prevailed in 2002 and is prevailing in the first quarter of 2003.

Mr. Roberto C. Branco: There are two keys contemporaneous indicators of the iron ore cycle; pellets demand and freight charge, freight rate. If the freight rates are high and pellet demand is booming, it is a strong indicator of the tightness of the iron ore market and for the long run we have been investing in increasing our pelletizing capacity just because we believe there is an upward trend towards the more intense utilization of pellets by the steel makers and if you go back to the 90's you can see that the seaborne traded pellets grew faster, much faster than the seaborne trade in iron ore.

Mr. Andres Perez: OK. And on the logistic side can you tell us from a general sense have you been able to get any price increases in the domestic market and if not, has this at all impact your plans on how much you are going to invest in logistics business, considering that most of the actual investment is in Dollars?

Mr. Fabio Barbosa: Well, we have to look at the several tables involved. It is a public concession, we cannot dollarize the prices of the logistics business. What we have to do as we did with the potash, for instance, is to try to link more closely the adjustments of the costs and the exchange rate with the tariffs we charge. But they are at the end of the day authorized by the regulatory authorities and we have to convince them that it is the right path to follow. So it is the direction we have to work and we are aware of the results that changes in variables important that the exchange rate and, for instance, the oil, that affects a major part of the logistic costs that we should improve our commercial policy in logistics and we are already trying to do that. But this is not something that should be expected for the short term. We have several discussions regarding shareholders structure in several businesses like FCA, we have been commenting that there is a structural problem there due to the fact that we must capitalize this business but we cannot do it because we are limited by the regulatory authority by 20% and compares an important component of any future improvement and capital structure. So it should be viewed in a broader picture but we are aware that it is an important issue to be tackled in the future.

Mr. Andres Perez: So do you think it would make sense to perhaps postpone some of your logistics investments until these regulatory issues are cleared up?

Mr. Fabio Barbosa: I think that is a combined approach. There is a good market for us. In Reais it has a very good performance, even in Dollar terms, we have a very nice margin but the financial structure of the business should be reshaped, but I think it is a combination of more service being provided to explore more logistics opportunity to catch

more market share and together with that some more adherent tariff pricing policy for the business.

Mr. Andres Perez: OK, thank you.

Operator: Our next question comes from Mr. Tom Meyer with UBS Warburg.

Mr. Tom Meyer: Good morning. I have a question on the iron ore market because it seems to me it is quite exciting at this time. I remember when you guys were through in September, you were talking about a seaborne volume level of something like 490 million tons for 2003 and then you revised that higher, I think it was in December, you took it up to 500 million tons and you reiterated that view with this quarterly release. How do you see it developing in the next six months? Is there any potential for an acceleration beyond present high levels and if so, as one of the largest iron ore producers in the world, what sort of risks do you face, in terms of the ability to deliver and how do you stack up versus your peers at this time?

Mr. Fabio Barbosa: Thank you Tom for your question. Well, actually we revised the figures for the seaborne trade. We are expecting now seaborne trade of around 500 million tons in 2003, 2002 was slightly above what we initially expected it was 470 by that time and it may have reached 475. China, that today, as we put in our press release, represent 15% of the world consumption of metals, continue to represent very strong growth rates and it may represent about 40% to half of this increase forecasted for 2003 of 25 million tons. As we also put in our press release, the steel industry continues to perform very well and in January 2003 compared to 2002, it was a 10.7% growth showing that this industry continues to perform in a very favorable fashion for the steel business itself and for our own business. So we are excited with the market behavior for 2003 – that is what we are expecting.

Mr. Tom Meyer: But is there any risk that you could be too conservative at this point, because you were conservative into late 2002 and I think you were caught a little off guard on the strong demand. I am sure your iron ore peers would say the same thing. Is there a risk that you are being too conservative for the outlook for 2003? Is there a possibility that we can get some surprises on the demand front? Or do you feel comfortable with what you see for the seaborne?

Mr. Fabio Barbosa: Well Tom, in fact all of our competitors are in the same position and as I mentioned before the iron ore does not have an elastic supply. So, we are trying, we are investing heavily this year to cope with the demand that is increasing about 5% this year. It is not an easy task and we are trying to keep our market share there and the fact is that the market is short of iron ore. That can be seen by the demurrage we are paying, and also by the line of ships, the cost of freight and, as you know, quantities cannot be fully available in the short term and prices should make the

adjustments. So we are doing our best effort in order to keep up with the demand, but it is not an easy task, not only for ourselves but also to our competitors.

Mr. Roberto C. Branco: Due to the supply constraint we see a downside with this 500 million tons figure. This is our estimate of the potential demand but we are not sure that the iron ore industry will be able to supply these huge amounts of demand, due to mining capacity and due to logistic constraints.

Mr. Fabio Barbosa: That's why we are investing heavily in logistics in our Northern system and also in our Southern system. In a few years we may have the capacity of transporting about 80 million tons from the Northern system but not right now. Right now we have 56 million tons capacity, we are investing in the Peer three, in Ponta da Madeira port; we are acquiring more wagons, more locos, but this is not an immediate response for the very tight position of iron ore market.

Mr. Tom Meyers: Thank you for your answers.

Mr. Fabio Barbosa: Thank you.

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

Mr. Paolo Di Sora: I would like to have a clear idea of what we should be expecting from pellets purchase along 2003. Basically you are renting a peer of pelletizing plant in your Northern system. Should we expect lower purchase of iron ore from JV's so that lower pressure on your margins? And still on this issue of costs that have increased dramatically in this fourth quarter. Should we expect for it to match the demand, keep purchasing iron ore from third parties before pressuring your margins along 2003? Or are you expanding capacity in order not to depend of these third parties of iron ore and therefore increase margins going forward?

Mr. Fabio Barbosa: Thank you Paolo for your question. About the first, we are actually in the ramp up process of the São Luiz pellet plant that has progressed a lot since we started in mid 2002 and with 6 million tons of additional capacity we think we will be able to cope with the demand for pellets and potentially reduce the acquisition of JV's pellets. But as you know this ramp up process is a complex one, but we hope that it will be fully operational very soon. So we expect a reduction on the acquisitions by year-end. At the same time we are investing in improvements in the Southern system pellet plant, in Vitoria, in order to improve its efficiency and its capacity, production capacity, over the next two or three years. So we hope that structurally we will have some reduction in acquisitions of pellets there.

As for your question on acquisition of iron ore from third parties, as I mentioned before, the investments in iron ore mining does not provide immediate results, so we may have in this short term, the near term too, to continue to buy third party iron ore in order to

meet our clients' demands. Yes, you are right in this point, but what we are doing? We are investing, we are replacing the Capanema mine, investing in increasing capacity in the Northern system, the Southern system in terms of logistics, and even in our own mines in order to reduce those third party acquisitions over the year.

Mr. Roberto C. Branco: I would like to stress that third party acquisitions is a zero sum game. It does not contribute to attend the demand in aggregate terms so there is an excess demand.

Mr. Paolo Di Sora: The second question is, of course, a guidance of iron ore prices for 2003, if you could share with us. You are talking about huge demand and there were some figures released talked about your President saying something around 10% increase in iron ore price. Are you still working with this scenario in your studies for 2003?

Mr. Fabio Barbosa: Paolo, we are in the midst of the negotiation of the iron ore, the comment of our President was reflecting the market disposition by that time, when we announced our investments. Markets continue to be very strong, but the outcome of the negotiations I cannot anticipate. You made a theoretical comment considering all the circumstances in terms of the market, iron ore market: very strong demand, long line of ships to be loaded, very strong performance in China, very strong performance in the steel industry, but let's see what the future brings. We will not speculate on price adjustments right now.

Mr. Roberto C. Branco: It is important to notice that the chairman of one of our competitors was even more sanguine than Mr. Agnelli about price.

Mr. Paolo Di Sora: Thank you.

Operator: Ladies and gentlemen, we would like to inform that the company is going to take only two more questions.

Operator: Our next question comes from Mr. Fabio Zagatti with HSBC Brazil.

Mr. Fabio Zagatti: Hi Fabio, hi Roberto and good morning everyone. In line with other colleagues questions regarding your expenses I wonder if those 54 million provision from Caeme and the other 40 million expenses from the closing of a gold mine in Bahia: are they allocated above EBITDA line or are they included on the EBITDA calculation for the fourth quarter?

Mr. Fabio Barbosa: Fabio, thank you for your question. Provisions are non-cash items so they are taken out of the EBITDA figure.

Mr. Fabio Zagatti: OK, thanks. And regarding the almost 2 million increase on pellets acquisitions quarter over quarter, is it possible for us, for you to provide us a guidance for the first quarter 2003, regarding the third party acquisition?

Mr. Fabio Barbosa: Well, as I mentioned, markets continue to be very strong and it is only pellets that is still on ramp up process and we hope that it is concluded soon and we should expect that the acquisition to continue for sometime in the first quarter, but in the second quarter one I would not risk a prognostic on that.

Mr. Roberto C. Branco: And I would like to comment that the acquisition of pellets from the JV's as a zero margin, but, on the other hand, the real money we are making is in the sale of iron ore to the JV's. This is the key issue, if the demand is booming we are making money selling iron ore to the pellets JV's and, of course, we are benefiting from this sale indirectly to an equity income from the JV's.

Mr. Fabio Zagatti: OK, thanks.

Mr. Fabio Barbosa: Thank you.

Operator: Our next question comes from Mr. Craig Shaw with HLM.

Mr. Craig Shaw: Good morning. Can you just recap how much of your iron ore and how much of your pellet volume was all company, 100% company based? And I know you are trying to increase capacity in production this year: how much do you think you can raise your production of both items in 2003?

Mr. Fabio Barbosa: Thank you for your question. We, as I mentioned before, we hope to be able to keep our market share in 2003, meaning that we will try to reach the same growth rate of the seaborne trade. It is not an easy task, it is not immediate and temporarily we may have to continue acquiring third party iron ore and pellets to meet our clients demand.

Mr. Roberto C. Branco: We bought, in terms of iron ore and pellets from third parties, 19 million tons of iron ore and pellets from third parties, but third parties means, does not mean companies that are not owned partially by CVRD, we acquire iron ore and pellets from companies like the join ventures from Ferteco that are associated or affiliated to CVRD. We do not buy pellets or iron ore from more mining companies in Brazil, which are not related to our company.

Mr. Craig Shaw: I see, OK, thank you, that is very helpful. Just as a kind of follow-up, I would like to take your perspective on the steel business in China. I hear some rumblings that perhaps there is a speculative bubble building there, what do you see from your end of things?

Mr. Fabio Barbosa: Well, they have been talking about a bubble in China for twenty years – it is a long lasting bubble. You never know because they are investing very heavily on infrastructure for the Olympic Games, for the so-called Go West and China. So, I think if you take the figures from last year they imported about 30 million tons and they were the largest world producers of steel. So they keep on growing on a very fast rate and affecting very specifically the metal markets and, as I mentioned before, they are now responsible for 15% of the world market in this area. So, although we are more conservative here in CVRD regarding the growth perspective of China, we are working with growth rates of about 6 to 7% - that is conservative for Chinese standards. What we have been seeing in the aluminum market, in the copper and the iron ore, is that the demand, the Chinese demand remains extremely strong.

Mr. Roberto C. Branco: There is nothing strange about this trend of the Chinese demand for metals. There is a relation, a typical relationship between per capita income and metals consumption given by the so-called S-code. So in the current stage there are more and more Chinese are gaining access for goods like consumer durables they are very intensive in metal consumption like steel, aluminum, copper and this impules the demand for these materials. On the other hand, in the process of economic development at some point there is acceleration infrastructure spinning like housing, like roads, like power plants that will demand, will generate a huge demand for metals. The economic growth of all China, at this stage, is very metal intensive. So what can cause a dent in the Chinese economic growth process could be some problems linked to its banking industry but it will, as I am seeing, it will cause a dent, nothing will change the long term trend of economic growth.

Mr. Fabio Barbosa: Just to mention, they have a very solid position in balance of payment and inflation is very low and they have a weakness, a fragile financial system, but as Roberto mentioned it should not be sufficient to change the growth, the major trends in terms of growth of China, although we work with a more conservative growth perspective for the next few years.

Mr. Roberto C. Branco: As regarding to the balance of payments with the devaluation over the US Dollar against a batch of currencies, the Chinese are net beneficiaries because their currency, the Renminbi, is pegged to the US Dollar 8,28 Renminbis per US Dollar, as the US Dollar is initiating a process of depreciation against other currencies like the Euro, the Aussie Dollar, the South African Rand and other currencies around the world, the Chinese are gaining much more competitive power in the world market boosting their exports.

Mr. Craig Shaw: Very good. Thank you very much.

Mr. Fabio Barbosa: Thank you.

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

Mr. Fabio Barbosa: Well, first of all I would like to thank you all for attending this conference call. Second, I would like to, again, apologize for the mistakes made quarter over quarter basis and stress that this will be corrected and additional information will be provided. But I would ask as well that the good performance of CVRD would not be forgotten for those mistakes for which we apologize and it does not justify but it explains our willingness to provide you with timely and precise information that sometimes made us make this sort of mistakes.

Again my apologies and we will try to correct these problems in our internal procedures in order to avoid repetition of this error in the future. Thank you very much.

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