



Transcrição da Teleconferência Resultados do Exercício de 2004 23 de março 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 (*0). As a reminder, this conference is being recorded.

At this time I'd like to turn the conference over to Miss Lídia Borus, of Financial Investor Relations Brasil, which as a reminder, is the successor of Thomson Financial Investor Relations Brasil. Please go ahead.

Ms. Lídia Borus: Good afternoon ladies and gentlemen and welcome to CVRD's conference call to discuss 2004 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 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 this afternoon is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First Mr. Barbosa will comment on the 2004 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, thank you very much for attending this conference call. We are very happy to be here today presenting to you what we believe are very, very good results of CVRD in 2004. Our discussion today will of course involve some comments on the results themselves and then we are going to comment on the business outlook for the industry as a whole and for company as well. I can anticipate to you that we envisage, we anticipate, we are forecasting a very good performance in 2005 as well.

In terms of the results, I think a major issue that we are showing today is the fact that the company has changed in terms of size. We are talking about a group that altogether generated US\$ 8.5 billion in revenues in 2004, that compares to almost 5.5 in 2003 - so a much bigger company, much more efficient company, as you can see by the margins we are showing, we showed in 2004 and we will certainly continue to do that in 2005. Price contributions to 2004 revenue growth amounted to US\$ 1.3 billion, scattered by the several divisions of the company, showing that in all our products, lines of products, we have been able to enjoy the very good momentum of the cycle.



In terms of iron ore and pellets shipments, again our operational excellence is highlighted with a new record. We achieved 61.8 million tons in the fourth quarter and the total of the year, 231 million tons of iron ore and pellets. Even if you do not account for the Caemi addition, you see that our performance was extremely, extremely efficient given the constraints we had this year, in 2004.

Our railroads transportation, in terms of general cargo we were able to show the new record in 2004, with 28.7 billion MTK, a growth of around 9.5% in comparison with 2003, well above GDP growth rate presented by the Brazilian economy, that was 5.2%, showing the same trend we had shown in the last three or four years.

Our general cargo business is growing well above the GDP growth rate, sometimes four times above the average growth rate of the GDP in these last four, five years. It is the result of identify demand with the addition of, to our fleet of railcars and locomotives, of thousands of railcars and hundreds of locomotives in the same period, so we are doing our best to meet our clients requirements, but we are facing the constraints of the equipments provided by the industry. In our case, the lead time to get a locomotive, not only for general cargo, but to transport iron ore as well, is around 18 to 24 months and the railcars, if we order today, we will only get them by the end of the year. So it is a general constraint to expand further, both general cargo services, as well as iron ore, at least is the near term.

We are buying this year 133 locomotives that we have already ordered and 5,600 railcars and we believe that with that, we will of course be able to deliver all the expansion in production that we are aiming at for iron ore and pellets and all other products that we offer to our clients and at the same time we will be able to grow further our general cargo business in 2005, although not at the same growth rate, or not at the rate we would like to see, considering the demand we have identified.

In terms of our EBIT margin, a new record was achieved in 2004, we reached 38.7% as a margin, our EBIT margin, it almost doubled in comparison with 2003, so we have a bigger company and a more efficient company, this is very important to stress, that we were able to add, to consolidate new companies in our figures, at the same time there was a sharp improvement in our operational efficiency.

Our costs suffered a little bit in the fourth quarter compared to the third quarter. I have seen in the reports and I understand by the reports several issued in the last few days; there was some concern there, but that is why we put this slide here trying to explain to you in more in detail what has happened. Of course, we are facing an environment that everybody is investing in the mining industry, everybody is investing buying goods and materials in order to increase production because the momentum is extremely good, so there is some inflation there, in the specifics of the industry, but is also some inflation in Brazil, there is the effect of the appreciation of the currency, as you all know. Particularly in the case of research and development, I would like to highlight that in the fourth quarter we bought a new bauxite deposit of around US\$ 20 million that explains two-thirds of the total increase of research and development that we have presented from the third to the fourth quarter.

In terms of our costs, we have them in more detail in the next page and you can see that currency volatility explains one-third, about one-third of this increased cost that we figured, that we are showing; also we have the effect of the consolidation of Albras and the new energy contract that we signed with Eletronorte, it is a US\$ 33 million effect there; Albras is electro-

intensive business, is a primary aluminum and it is reflected, this cost increase is reflecting the link with the aluminum price that went up and reached almost US\$ 2,000 recently and has been in very high levels for the last few months. As you know, energy cost for Albras is linked to the aluminum price in the LME, so beyond US\$ 1,450 every US\$ 100 more of aluminum price represents US\$ 1 in addition to the rate that Albras pays and on the top of that Albras energy cost is set in reais, it is a R\$ 53 per megawatt, as the basis from which it is calculated in the final cost of energy of the company, so there is a set of factors inducing a increase, a major increase in energy, particularly in the case of Albras there.

Demurrage. Demurrage costs we had an increase of US\$ 29 million in the fourth quarter. Of course you just saw the record in sales that we achieved in the fourth quarter, but we also had some operational problems in the Northern System and also some issues related to the implementation of the ERP, so part of the cost, demurrage cost associated with the shipments were translated or were evident only in the fourth quarter, but it's a mix and the main determinants was, of course, the line of ships that we have observed in the ports.

Administrative expenses. There are several factors here, but I would like to highlight at least one that we are implementing the compliance program with Sarbanes-Oxley act, it is a very complex issue for CVRD given the size and diversity of its operations and it does not explain all this increase here: we have salaries, we have other consolidation of companies, but one of the issues I would like to highlight here is the fact that we implemented a new program that was effective September 1st onwards, a program of compliance that will enable us to comply fully with the 404 section of Sarbanes-Oxley and this was not observed in the previous quarters. And, finally, I would like to comment a little bit on the charting of vessels by Docenave, it is a US\$ 12 million increase from quarter to quarter, but it is in our perception a business that is recovering from its very problematic past, we believe. Docenave is now restricted to coastal shipping and in the last year operational performance was much better than the previous years and it is even showing capacity of paying dividends to CVRD - its controlling company, so there was this adjustment of US\$ 12 million in the fourth quarter.

Given the circumstances of the industry as a whole and our own position in Brazil facing a very, a much more appreciated currency, the dollar is depreciating against almost all currencies and a major part of our costs are Real denominated. We have the challenge of keeping our costs in line with the expectations of our shareholders, so we launched an excellence program dedicated to reduce costs and to increase our productivity and we have been doing that, but now we are intensifying this effort with the current circumstances. So the pillars of the program is improve the maintenance efforts, improve our operations and be able to execute the most ambitious investment program we have had since the beginning of CVRD operations. So we are aiming at growth irrespective of the cycle and we are promoting some quote and unquote savings, we are increasing our street ratio, we are trying to intensify our maintenance programs, we are keeping all trucks in operation, given the strength of the demand, but we are planning for the removal of those equipments as market conditions change. So, we are improving our supply chain, we centralized engineering of CVRD in a single department that will guide the implementation of several projects. We are enjoying this very good momentum of the cycle, of course, but we are not sleeping on the good results that we are presenting, we are trying to improve further, because we know that we still have some room to increase our efficiency and productivity in all operations.

Despite that, of course, we presented very strong results in all our lines of businesses: ferrous minerals EBIT margin reached 42.3% in 2004; non-ferrous, 41.9%; aluminum, 41.7%; logistics,

21.9%; and CVRD as a whole 38.7%, and, as I mentioned before, a new record that compares to the almost 30% that we showed in 2003.

In terms of net earnings, again, an extraordinary result in 2004; US\$ 2,5 billion in net earnings in 2004, a new record in terms of earnings and, of course, it is the result of the operational excellence, but it was also helped by the appreciation of the currency, given that the real is our functional currency, there is a positive effect there improving our net earnings given this appreciation of the currency, of the Real, so there is a positive impact there. But the point I would like to make is that you certainly noticed that we are paying more taxes and particularly in the fourth quarter and this point I would like to clarify the issue of the taxes of the fourth quarter.

Out of the increase of US\$ 172 million observed in the fourth quarter there, 137, almost 80%, was non-recurrent event, was the rise from non-recurrent events. The events I am mentioning are: first, the effect of the sale of CST and this, of course, the sale was finally concluded in the fourth quarter and according to Brazilian legislation we had to record the full effect only in the fourth quarter, part of it was recorded in the third quarter, but there was US\$ 10 million effect of this sale of CST there. A second aspect is that we promoted a structure change in the way we approach tax credits, Ok? Derived from, for instance, losses in companies like FCA, our railroad company, that presented losses for several years in a row and those losses were creating, implying in tax credits that, of course we believe in the future performance of the company, but it may take long and we believe that it would be more appropriate, given the moment of the cycle, to be more conservative and more prudent in this area. So this change in approach represented one of effect of US\$ 57 million. The change in legislation relative to losses with derivatives represented additional US\$ 57 million; this is a Government determination, a new legislation that was passed in December 2004, determining a new treatment of losses in derivatives and this represented US\$ 57 million of additional expenditures of tax income, income taxes in 2004, so was of course, it was not anticipated by ourselves and we had to adapt to this new position. Although this non-recurring event explain about 80% of our increase, of tax increase from one quarter to the other, it is clear that our company effective tax rate is increasing; this is something that we should be clear about, it is not of course in the level that you saw in the fourth quarter, given the nature of the event, but there is a increase in the effective rate, given the size of the operations we achieved, we have, we are operating in more states, with different tax treatment and effective tax burden in Brazil is increasing, that is a fact. So this is something that we'll, of course, try our best in order to optimize our fiscal position, but there is a trend there that we wanted to share with you.

In terms of Ebitda. Again, for the eleventh consecutive quarter we showed a new record, in 2004, US\$ 3.7 billion of Ebitda - that is almost, or more than double, of what the figure showed in 2002; the company grew, through organic growth, but also grew through the incorporation or consolidation of companies like Caemi, Albras and FCA, but what matters here is that is much clearer to the market participants the actual size of our company. Although there is only consolidation there but we believe that we work in the right direction in order to show the market participants that operations like aluminum are adding value to CVRD's shareholders, they are very good operations and they were not showed in full, according to the US GAAP and Brazilian view until 2004. So now the market participants have the more accurate perspective of the actual contribution of these several lines of business that we do have and there is still some companies that are outside the picture, all according to the US GAAP criteria, like our pelletizing plants, our joint venture with Samarco, MRM, Valesul and others, so still there is some room for further improvement.



In terms of balance sheet, we are strengthening further our balance sheet, confirming our conservative approach towards the financial indicators of the company. You see that our interest coverage reached 12.4x in December 04 and our Ebitda gross debt reached 1.1x, so it is very much comparable with the major players in this industry. We are fighting, we are not fighting but we are discussing the issue of the investment grade with the rating agencies and we work further in this direction in 2005, strengthening further our balance sheet. If you recall, we bought back almost 60% of our PRI bonds due in 2007, even before knowing about the price increase that was achieved by our negotiators.

Turning to the business outlook, we believe, as we say there, that markets will be tighter for longer. We are not talking about a bubble that will burst any time soon in the future; we are talking about structural changes, secular trends that came to stay in our view. Although global GDP growth may slow down a little bit in 2004 compared to 2004, we believe that the denying scenario will continue to prevail. There is no chance, in our view, that China will reduce sharply its growth rate; there is no macroeconomic fundamental that would entail this judgement in our view; they have a very strong position in international reserves, they have inflation under control, they have a very high investment, aggregate investment rate, a very high domestic savings rate, so it is a balanced economy, it is one of the top players in international trade. So it has everything in place to grow further, there is no reason why it should stop growing, particularly if you consider that, as we keep saying all the time we are able to meet you that China cannot afford stagnation in our view, given the history, the culture and the political issues involving that country. So we believe that China will continue to grow and, as you can see, in the slide that we are discussing GDP, Chinese industrial production, it keeps growing. China industrial production in around 15-13% on a year-over-year basis growth in January, February and alumina and iron ore imports; Alumina grew, alumina imports grew by 45% in the first two months of the year and iron ore imports 24% in the first two months of the year; well, if they continue this trend it means that they would be importing more 50 million tons of iron ore in 2005, that is a major and as you are going to see, our seaborne trade forecast is around 655, meaning that China would absorb the whole growth of the seaborne trade that we are forecasting, if they continue to perform as they are right now.

In the next slide is a very interesting chart, that shows that the historical trend towards deterioration of terms of trades of commodities against industrialized products was dramatically changed by China, particularly near the year 2000 and you see clearly that there is a change in the trend that was showed by this in this comparison. In benefit of commodities and raw materials producers, that is very good news for us that once we are, we believe in the right spot at the right time, and we have a great investment program ahead of us. So, another important point is that growth in the steel industry is taking place in China, most of the growth is taking place there, so as we put there, after almost 25 years of relative stagnation, China is the major driving force of the steel growth, steel industry growth in the last few years. Chinese steel production last year was 272 million tons, more than one-fourth of the world production. Steel industry grew 8.8% last year; this year we believe that at least 5% would be feasible to achieve, in terms of growth of the steel industry and China would be again the major driver and the imports of iron ore in the first two months of the year just confirm this expectation.

China's growth, the quality of ore, the nature of the growth in the steel industry in China, it's enhancing its dependence on iron ore and good quality iron ore and that is, again, very good news for our products. Given the trends of the buyers towards blast furnaces production, iron ore producers, like CVRD, are very well positioned to supply our clients and to provide them with all

the solutions they need and this, again, makes our market share in China more structural and more permanent than otherwise would be in the absence of this trend.

The next chart shows you that with this price negotiation that we were able to conclude, that we are trying to catch up with other metals and other commodities. Iron ore used to be a late cycle product, now we are trying to, again, to catch up with the market trend in order to allow the implementation of our huge investment program to increase our supply of products to our clients. That is a very important movement, considering the market circumstances.

We would like to highlight new trends emerged in the iron ore market in the last few years, particularly last year. First, a question of long-term contracts and then this is very important for, for instance, Chinese clients, that didn't used to have a very long-term approach and they are now moving towards this long-term relationship, establishing joint ventures and long-term contracts and a spot market was also developed; it is marginal in our view yet, it is nothing that could represent a threat to the major producer in the long-term, given the issues of quality, timely delivery of the products and reliability, but it was a powerful indication of the imbalance of the market and it is a reality that is there and we have to live with that.

In the near future we believe that despite our best efforts and our competitors' efforts, the steel it is not likely that we will see an excess of capacity for the next couple of years. We have growth in demand, a sustained growth in our view that will keep this market very tight. There is some demand today met by marginal players in the spot market, there is room for further growth in our part and we are, of course, building the adequate capacity to deal with the supply chain problems, but they are there, it's a reality we cannot deny.

In terms of demand, the outlook is extremely positive, the seaborne trade again, as I mentioned before, should reach 655 million tons and almost 700 in 2006 and China share in the total seaborne trade should be consolidated further and imports of iron ore in China could reach this year, 256 million tons in the first two months of the year are very much in line with this forecast, 288 in 2006 and 310 in 2007.

Yesterday we commented that we add one more project to our portfolio, you recall that we have been commenting on several projects, in Carajás we discussed about the 85 million tons expansion that starts operations in the third quarter of 2005. In fact, excuse me, in fact Carajás' 85 million tons expansion will start with a shiploader that will be installed in July and then Carajás will produce, this year, around 77 million tons of iron ore and then it will start operation at full capacity from July onwards, meaning that we will be producing about 87, sorry, 77 for the whole year.

Then we announced an expansion, a further expansion of Carajás. Carajás is going to reach 100 million tons by 2007; it is a 376 million investment with a very nice rate of return, as you see there. It is important to mention that we are almost doubling Carajás' capacity compared to what it was just two years ago, 2003 that was 56 million tons. So we are working hard to please our clients and in this investment in Carajás it is important to mention, as well, that it will be some additional investment in logistics that will provide for much more flexibility in our logistics system, our logistics facilities in the Northern System, enabling us to cope with the additional demand of copper, nickel, and also further expansions of our Northern System, iron ore system, our Carajás' production, so it is a very important project that was just approved by our Board last Monday.



In terms of aluminum, prices reached a new 10-year high this year, as I commented briefly on discussing the energy prices, about US\$ 2,000 per ton, a good perspective. Inventories are going down and the weak dollar helps this market. In terms of alumina, still a very strong market, LME prices, 22% of LME prices, very good perspectives until 2007 at least. Copper prices reached a 16-year-high, a very good momentum for the only green field project in 2004 in Sossego; Sossego we are able to deliver 73 thousand tons of copper content, a very good performance for a plant that is still in the ramp up, so a very good perspective.

And finally, I would like to mention that given this very good perspective of the market and I would not discuss every single project we have in our pipeline, and they are over 40 and growing, I would like to highlight the fact that we, as we put it, are paving the way for long-term growth, we are accelerating our investments in R&D, particularly in other countries. We are trying to develop organic growth opportunities in countries in South America, Africa and Asia, so our growth will depend more and more of other projects in other countries and that is very good news; we are trying to do our homework, trying to look for opportunities that are not that obvious, but are important to allow us, for instance, to enter in the coal market. It is something that is missing in our portfolio, like the Moatize Mozambique project, enhancing our production in potash, that we have limited perspectives here in Brazil, and this new came project is very important and this phosphate project in Peru is the second largest world deposit, the second world-largest deposit and we have a perspective of increasing, or producing about 3.3 million tons per year at a very nice margin, according to the first estimates that we do have. So our long-term trend, as we put there, we believe that we will be promoting sustainable profitable growth with diversification and globalization, meaning that we will increase our footprint worldwide.

Thank you very much and I will be available for any questions you may have.



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 the star, two.

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.

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

Mr. Alberto Arias: Yes, good morning, Fabio and Roberto. Congratulations on the good results. A couple of questions; the first one perhaps on the comments you had on the structural changes on these markets and the decision of expanding the iron ore production ahead of what you were anticipating before. Should we read that this is going to change your US\$ 3.3 billion Capex for 2005, given that this project was not approved before, or was the Capex already incorporated or this project was incorporated in that project? And also when you talk about the internal rate of return on Carajás, what kind of pricing assumption are you making on iron ore to estimate a 30% internal rate of return?

Mr. Barbosa: Ok Alberto. Thank you very much for your question. There should be no change on the first question; our investment program for this year, US\$ 3.3 billion and we already have some small provisions there for the beginning of the project. It is like the expansion to 70 million, Alberto, it was already embedded with the expansion of 85, in a sense, right? So, we are expanding 85 now with this shiploader and we are working, we are investing in some aspects of the logistics and the mines that will help us to produce US\$ 100 million, 100 million tons, sorry. Just to give an idea, we are investing in expanding our yards; our loading capacity in Carajás; we are adding silos. So we mark this, we have several investments going parallel, that will, that are already part of, were attached to a single project like 85, but they will help us to produce 100 million, but answering straight your question, as you asked, we are not increasing the investment program for 2005, these US\$ 3.3 billion is our mark. As for the internal rate of return, the reference prices are those prevailing in 2004, before, just before the price change of 2005.

Mr. Arias: So, that was the price that you used for the 30% internal rate of return?

Mr. Barbosa: Yes.

Mr. Arias: OK and my second question is just a little bit of elaboration on the tax impact. You mentioned that derivatives was a non-recurring tax hit in the fourth quarter, of US\$ 57 million, because of a change in legislation at the end of last year. Should we be expecting that the tax rate will be impacted by your market. Is that the market-to-market position that was taxable? And is this something that we are going to get every quarter, depending on fluctuations of commodity prices? And is this going to, at all, change any of your hedging policies from now on?

Mr. Barbosa: Well, this is a non-recurring event in our view, because we had to adjust for the whole stock of losses accumulated last year and the tax credits and we did some adjustments, operational adjustments, for instance we transferred part of the derivatives position to offshore companies so it should not happen again in the same amount in this year, but remember what I mentioned about the general tax effective rate of the effective tax rate of the company, it should be increasing over time, given the size of all operations and the nature of the results we are getting, Ok?

Mr. Arias: All right, thank you.

Mr. Barbosa: Thank you, Alberto.

Operator: Thank you for your question, Mr. Arias. Our next question comes from Jorge Beristain, of Deutsche Ixe. Please, go ahead.

Mr. Jorge Beristain: Good morning Fabio, Jorge Beristain with Deutsche Ixe. I just had, I guess, two questions, as well. I wonder if you could give us sense on what is happening with your interest expense line, which has in the past few quarters really been increased a lot by these derivatives losses and also losses on interest rates forward, now we are obviously in a rising interest rate environment. Do you have your own internal projections as to what if the interest rate line will fall in 2005, given that a lot of these have already been lost under the past two years? I guess that is my first question.

Mr. Barbosa: OK, Thank you for your question, Jorge. Well, the interest expenses, the net financial expenses, increased by roughly US\$ 60 million and you are right, derivatives responded or represented US\$ 36 million of this total. It is related with Alberto's question, but the fact is that we have derivatives position, particularly aluminum, and we are locking as a margin for the company of about 50% of the total production of Albras, for instance, and prices of aluminum have skyrocketed, particularly in the last quarter of the year, so it is very much related to the fact that we, of course, locked a much lower price in our derivative position and as prices continue to be strong we should continue to present these losses in our derivative position. We are trying to adjust that, but those are long positions, you know? Remember what, where aluminum prices were two years ago. So, they are very important to protect the margins, they are a requirement of some of the financiers of Albras, for instance, like BNDES, and we are constrained by the position we have already established. On the other side we have some derivative positions as well in interests and there the libor is increasing; these losses should be reduced and we have very marginal losses in our gold production, as a byproduct of the copper, so the bulk of it was associated with - the increase, I mean - associated with the derivatives. Another important point is that you saw that we bought back part of the PRIs of our debt, total debt; we are reducing the share of floating interest rate in total debt, increasing the duration of our debt and this implies, granted, a higher interest payment over time, as a structural factor, Ok? I hope I have answered your question, Jorge.

Mr. Beristain: OK, thanks, and the second question if I may, this is more related to your capital structure part. There has been a lot of recent under-performance of your preferred share class versus the ON share class and I was wondering if CRVD's management is formulating any policy to deal with this large discount in the PN share class?



Mr. Barbosa: Jorge, our view is that there is no reason for this discount. In our view it is a non-issue and it is a very cheap investment opportunity for CVRD in our view, there is no reason why PN share should be traded at this discount, they get the same dividends, the only difference is that they have no right to appoint or to nominate a Board member, but I believe that for most investors, particularly the institutional investors, this is a non-issue as well, so we do not understand and we cannot justify this discount and there is a great opportunity there in our view.

Mr. Beristain: Is there anything concrete that management can do, such as granting tag-along for the preferred share class, or any other thing to close the spread?

Mr. Barbosa: Jorge, as you know, this is an issue that is way beyond our shoes; this issue is a shareholders' issue, that they should be convinced, they should be endorsing any movement in this direction, but so far there is no change in this issue, Ok?

Mr. Beristain: Thank you.

Mr. Barbosa: Thank you, Jorge.

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

Ms. Andrea Weinberg: Hi Fabio, hi Roberto, so two quick questions. First, in your logistic business Ebitda declined US\$ 33 million in a quarter-over-quarter basis and revenues are pretty much in line; could you please explain what led to the significant, my conclusion is that significant, increase in costs in the logistic business?

Mr. Barbosa: Sorry Andrea, could you repeat the last part of your question, please?

Ms. Weinberg: In the logistic, it just seems like the costs of structuring the logistics business increased a lot in a quarter-over-quarter basis, I just wanted to understand why?

Mr. Barbosa: Well, they basically that... the chartering of vessels that was a major adjustment in December, of vessels that were chartered by Docenave and also we had some provisions for losses that we had to adjust; there is some seasonality there as well, basically would be that, those factors that have affected the margins and we are working on that. It is interesting because Docenave generated a very good amount of cash and they will be paying dividends, for us this is almost new, let's say, in the last few years at least, OK?

Ms. Weinberg: OK. The second question will be more... some explanation on the rationale behind the fact that you exercised the right on the CSN long-term contract, it is 54 or 50 million ton contract that you announced to days ago. I just want to understand why you are doing it and if you would do in further contracts as CSN announced to the market?



Mr. Barbosa: I thought you would never ask! Well, this exercise has to do with the right that we do have, has to do with the tightness of the market that we are forecasting. We believe that, given the market circumstances, we have, we had an opportunity there, given the intentions of CSN to increase their production and we believe that for exports, we would like to supply our clients with more, or that we are able with our own production. So in this sense we are not exercising the domestic market, as you know and in this particular case we believe that it was the right thing to do, given the strength of the demand and the perspectives of the market in the long term.

Ms. Weinberg: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you, Ms. Weinberg. As a reminder, in order to allow all participants to ask questions, we kindly ask you to limit your questions to two at a time.

Operator: Our next question comes from Daniel Altman, of Bear Stearns. Please, go ahead.

Mr. Daniel Altman: Hi, good morning. A couple of questions. On taxes, you are showing the deferred tax liability in the short-term, sorry, credit liability provision of 433 million as of the end of the year; I am just wondering when do you think that that, or if you think that that will be paid in cash during 2005? The other question regarding the CSN contract: if their contract was for a customer in Asia, are you obliged to sell to the same customer or to the same region or do you have flexibility to take that product and sell wherever you feel, wherever you chose? And, kind of an offshoot to that question; they're are saying that can go as high as 25 million tons in the export market; do you believe, think that that number is credible? And would you be able to, or would you choose to, use your rights all the way up to 25 million? Thanks.

Mr. Barbosa: Well, Daniel, thank you very much for your questions. On your issue we, as you put it, we made some provisions for income taxes and part of it, particularly in the MBA, will be actually disbursed in 2005, about half of it, half of this total, Ok? And we, as you are observing, have very good perspectives for these years as well, so we have limited scope for using interest on the shareholders equity to deduct our tax burden, so we should, again, have an increase in the effective tax rate even in a cash basis, Ok?

Your second question, no, we are not restricted to the very client that was negotiated the contract, to sell the order we are buying from CSN, we can sell to anyone. So we have much more flexibility and, as you know, we have a very strong presence in Asia and, of course, we will try to optimize this ore that we are buying in terms of sales and margins.

As for your third question, on the expansion of the mine, we have to take a gradual approach there. They have been saying that they would be able to expand it to a certain level, but so far the one thing we saw is, I believe, 3 million tons in 2006 and 5 million tons from then onwards and it is not easy, as you know, to increase production overnight. You see, if you order today, I just mentioned that if we order a locomotive today we will get in two years and the same applies to shiploaders, to shovels and other equipments, mining equipments, trucks, just look at Caterpillar and Komatsu, the lines there. So it is not simple to increase the production and if they decide to do that and if they decide to export, we will decide, depending on market conditions, what would be our approach to this event, but so far we exercised this first right of first refusal on

the contract that was actually discussed, I believe, by what I saw in the press, for several years by CSN with their players, so it may take another few months or years, I don't know, to come with another opportunity, let's say.

Mr. Altman: OK, thanks very much.

Mr. Barbosa: Thank you, Daniel.

Operator: Thank you for your question, Mr. Altman. Our next question comes from Karim Babay, of Lehman Brothers. Please, go ahead.

Mr. Karim Babay: Congratulations, all my questions have been answered.

Mr. Barbosa: Thank you very much.

Operator: Our next question comes from Luiz Mann, with CSFB.

Mr. Luis Mann: Hello, everyone; my question is related to your balance sheet structure. When you take into account your net debt position coupled with your comments regarding the iron ore market, that is likely to remain very strong, I see your Net Debt to Ebitda being at a very low level and I would like to hear some comments where do you think this multiple should be to make your balance sheet more efficient considering taxes and considering also the fact that the company is looking for an upgrade on the debt side, which means lower cost of capital. Thank you.

Mr. Barbosa: Thank you, Luis. Well, you are right, our figure is a very comfortable one for the Net Debt/Ebitda, but in our daily management, our financials, we use as reference the gross debt, due to a more conservative approach that we do use and in this regard we are showing a figure of 1.1x Gross Debt/Ebitda, it is extremely comfortable, it is comparable with a A or AA figure, AA or A company, if there was not the sovereign ceiling or the sovereign risk attached to all risk yet, so our view is that we should strengthen further our balance sheet in order to enhance the possibility of getting the investment grade. So in this regard one should expect further reduction of leverage of the company, we are reviewing our borrowing program for 2005, that was initially thought to be around US\$ 1 billion; we are reconsidering this figure downwards and we are also discussing with several first tier banks the extension of the committed bank facilities that we signed last year with a US\$ 500 million, so we hope to improve the profile. This year, remember, that was one year plus to disburse, plus one year to repay. We are trying to improve the profile and also to increase the size of this committed facility in order to give more comfort to rating agencies to reconsider our rating. Ok?

Mr. Mann: Ok, Fabio. Next question is related to recent comments from Baosteel and CVRD joint venture regarding this new steel plant and the taxes issue. Can you update us on that? Thank you.

Mr. Barbosa: Well Luis, the issue is that by the time we discussed with Baosteel, the project in São Luis, that in 2002, since then there was a change in legislation that increased taxation of the



equipments in about 20%. So, this increased the all, the overall cost of the project by 400, almost US\$ 500 million, and this has to do with the import taxes and PIS and Cofins taxation of imported equipment as well. So we presented a proposal to Mr. Pallocci last year by the end of 2004, in which, for investments that would be targeting exports, that would have at least 80% of the total revenues in the targeting foreign market for exports, in projects like this we would have the exemption of the taxation that was added. We presented the proposal last year and so far we have not heard from the Government about the possibility. We believe that there is no fiscal impact because we would be talking about new projects, not old ones, of course, because we are talking about investments and I believe that there is, the idea is welcome. I believe that they are studying because they know that this is a major issue to make more feasible several major projects in Brazil, particularly in the steel industry. OK?

Mr. Mann: OK Fabio, thank you very much.

Mr. Barbosa: Thank you, Luis.

Operator: Thank you for your question. Our next question comes from Katie Blacklock, of Thames River Capital. Please, go ahead.

Ms. Katie Blacklock: Hello. First of all, could you just clarify what exactly is included in the outsourced services line and what is included in the other costs line? And then the second question is related to personnel expenses. Can you just tell me how many employees you had at the year-end and what kind of wage inflation we can expect to see this year, as well as any increases in staff that you are expecting for this year, please? Thank you.

Mr. Barbosa: Thank you, Katie. Your first question, outsourced services, the basic issue there is Caemi. Last year you remember we consolidated Caemi for four months only. This year we have 12 months of Caemi that uses a third-party railroad, that is MRS, that is not consolidated in our US GAAP figure, so that is why there is this increase in outsourced services, explains most of it and, of course, appreciation of the Real and so on, and so forth. As for payroll, we had addition of several companies last year; remember FCA, it is our railroad and general cargo transportation that has almost 3,000 people working for it, we have Caemi consolidation, we have Albras consolidation, so we, in total our total workforce is around 31 thousand by the end of ... was 31 thousand by the end of 2004 and this addition represents about 4,000 people to the 12 months based in 2004. Ok?

Ms. Blacklock: Out of the 4,000 in 2004 are you expecting to add any more in 2005? Would you...

Mr. Barbosa: Well, we are investing a lot, Katie. We have a consolidation effect of this addition, OK? But we are investing US\$ 3.3 billion in production expansion and this represents organic growth and we will add people to our workforce for certain. We need drivers to the trucks, we need shovel operators, we need, you know, locomotive pilots – I don't know how to call them – but we will certainly add people, but remember, our concern with productivity and efficiency of our operations, we are working very hard on that but we are facing some cost pressures related to the appreciation of the Real and the overall boom of the whole industry.



Ms. Blacklock: OK. And just in terms of wages negotiations for this year, do they happen at one specific time in the year, in April, renegotiation of wages?

Mr. Barbosa: The wage negotiations take place in July, so this is where we should start our discussions with the trade unions. I would like to highlight that in this first quarter we are going to pay our employees profit share in bonus and, of course, will affect the cost of payroll in this very first quarter of the year. Other than that, other than that the discussions about wages would start, will start in July.

Ms. Blacklock: Ok, so the profit share was not paid in the fourth quarter; that will be paid in the first quarter?

Mr. Barbosa: Will be paid in the first quarter of 04, but there was some provision there in the fourth quarter. Ok?

Ms. Blacklock: Ok. And then I just thought also a clarification on what is included in other costs. Is that demurrage and then the chartering of vessels, could you give me a breakdown of what else is in that line?

Mr. Barbosa: OK. Katie, I will ask Roberto's team, Daniela or Roberto to call you and go into every detail in that, OK?

Ms. Blacklock: OK, thank you very much.

Mr. Barbosa: Thank you, Katie.

Operator: Thank you for your question, Ms. Blacklock. As a reminder, in order to allow for participants to ask questions, we kindly ask you to limit your questions to two at a time.

Operator: Our next question comes from Gary Lampard, of Canaccord. Please, go ahead.

Mr. Gary Lampard: Hello. I have two questions, the first on the ferro-alloys business. There appears to be very large cost increases from Q3 2004 to Q4, can you explain those cost increases, and also whether or not we can expect that cost pace to continue into 2005? And the second question is on Sossego; could you give some more detail there of copper grade? What was the copper grade in the fourth quarter 2004 and what do you expect in for 2005?

Mr. Barbosa: OK, Thank you very much. As for the cost increase, we did have some pressures on coke, energy and also there was a provision that affected the performance of this segment of business, basically stocks write-offs, write-off of stocks of inputs that we had there in our plants. As for the second question, on the Sossego, could you repeat that, please?

Mr. Lampard: Yes, I would like to know what the copper grade was during the fourth quarter and what your expectations are for 2005?



Mr. Barbosa: Well we, as you know we are in the ramp up process and the copper grade was around 1% in the fourth quarter. For this year we are facing a very important issue that is related to the hardness of the rocks there, so we are working hard to cope with that, there should represent some additional operational costs there this year, but the grade should be around the same that we observed in the first ... in the last quarter of 04, even with this difficulty in terms of production we expect to reach annual production of over 140 thousand tons of copper content this year.

Mr. Lampard: OK, thanks.

Mr. Barbosa: Thank you very much.

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

Mr. Barbosa: Well, I would like to thank you all for the patience of hearing us today and we will be, of course, available for any further questions you might have. Thank you very much and I hope to see you soon.

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