Companhia
Vale do Rio Doce

LOCAL CONFERENCE CALL
Companhia Vale do Rio Doce
FY 2005 EARNINGS
March 8 – 12:00 p.m. (RJ time) / 10:00 a.m. (US EAS time)

Operator: Good morning ladies and gentleman, thank you for standing by and welcome to the CVRD's conference call to discuss fiscal year 2005 results. If you do not have a copy of the relevant press release it is available at the company's Website at **www.cvrd.com.br** at the Investor Relations link. At this time all participants are in a listen only mode. Later we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call please press the star followed by zero. As a reminder this conference is being recorded and a replay will be available until March 16, 2006. To access the replay please dial 55-11-4613-4532, access code 212. The file also will be available at the company's Website at www.cvrd.com.br at the Investor Relations section.

This conference call and the slide presentation are being transmitted by Internet as well. You can access the web cast by logging on to the company's website www.cvrd.com.br Investor Relations section. It is also available at **www.prnewswire.com.br**

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

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

Mr. Fabio Barbosa: Thank you very much. Good afternoon ladies and gentlemen. We prepared a nice surprise for you. Here with us today is Mr. Roger Agnelli, our CEO, that will make an initial statement regarding our 2005 results and how we see the market from now on. Please Mr. Agnelli, the call is yours.

Mr. Roger Agnelli: OK, good morning, good afternoon, good evening for everybody because we have people in Europe, in the United States, in Brazil. It is a pleasure to be here with you. Yesterday we announced our results from 2005. I would like to make some comments about the last year performance because last year was a very tough year in terms of operational point of view. The company was working in a very stressful environment because the clients were requiring a lot of shipments, a lot of products. We had problems with supply because our suppliers weren't prepared to ship their products or their equipment in the right schedule to... for our investments here in Brazil so we had a problem with suppliers, we had a problem with Real appreciation last year that affected our costs. At the same time the company beat all the records in all sectors, in all our segments, and was in terms of operational was really a very stressful year, but in the end of the year I could say that we did well. I think the company overcame all the restrictions. We invested heavily in logistics I think all the major bottlenecks that we had in our operations we were able to overcome. 2006, we are beginning the year with these bottlenecks completely solved, I think we have a more easy year in terms of operational point of view. Of course is our concern to keep taking care of the costs, we need to, we are dealing with our suppliers with our service suppliers to increase productivity, increase efficiency in order to reduce the cost of some investments that we had faced last year. We are trying to improve our performance in terms of productivity, in terms of efficiency, we are... last year we invested heavily in training programs for our employees, this year we are keeping investing in training programs in Brazil, outside of Brazil, in management programs so in terms of the company itself I think we are doing very well.

In terms of market point of view last year was a very nice year, the demand was very strong, the supply we were able to fulfill all our requests in terms of shipments. For 2006, my perception is that the year will be as same as last year, so the demand is still very, very strong. In terms of supply we are increasing our production, we are able to fulfill all our long term contracts but the demand and supply equation is not stable yet, I think we need at least more 18 or at least 24 months to match the demand. Of course we are right now negotiating the prices with our clients. The environment is very calm, is very, I should say, normal. Of course the buyers, our clients, they don't want to see a price increase but they recognize that the market is very strong. Of course we are looking for a price increase. The Chinese they want to be listened in terms of their consumption. Yesterday, or the day before yesterday, the Chinese government announced that they want to put a cap in the price, the iron ore prices, until April. For us nothing changes, because we have long-term contracts and our contracts in Asia due in April 1st, so on the contracts the new mining year start, in Asia, start in April 1st, so until then we have all the contracts. From April 1st on, of course, the new reality or the new price will be in place so nothing changes. Of course my understanding is that the Chinese government just is trying to regulate or trying to reduce the impact of the spot market in the price negotiations for this year. That is why they are announcing until April that they have decided to have these restrictions so, in my point of view, the negotiation is going well. I believe that everybody understands that the market, the steel market, is recovering a little bit right now, that the trend for price - for the iron ore price - is up, the problem is how much.

Of course we don't want to put our clients in a situation that is not realistic with the market, current market conditions. We are driven by a long-term view and market conditions. We believe that to keep growing or keep investing heavily as we are investing we need to have appropriated or at least a reasonable price to remunerate our investment, so it think the arguments that we have are very strong; the clients they are listening, we are taking our time in terms of negotiation and the Chinese, you know, they are very patient so I think we are finishing the negotiation process. I don't see any change in the environment or in the negotiation environment so I am quite optimistic that in 2006 we need to work hard to make a better year than 2005. We need to work hard, we need to have our team, our employees really committed with our goals, our targets and I believe that we will be able to deliver a very nice, at least, reasonable results for 2006. Fabio Barbosa right now will take care of you. If you have any questions later I will be able to answer to you. Thank you very much for your attention.

Mr. Barbosa: Thank you very much, ladies and gentlemen, for listening and now our CEO will have to leave for a few moments, he will try to be back in time to be part this conference. However we do have with us today as well Mr. José Carlos Martins, our Executive Director for Ferrous Division. So let's go very quickly through the presentation to allow more room for the Q&A session.

In the first session the title is cruising at high speed and that is precisely what we have been doing. In 2005, the third consecutive year of record sales performance: Iron ore and pellets 255 million tons, 10.4% increase; primary aluminum 447,000 tons, 4% increase; kaolin, railroad, general cargo and port handling services is the same. In terms of the change of revenues, sales volume represented US$ 936 million, an impressive contribution by our production increase, considering all the constraints that Roger mentioned to you – iron ore cost a major impact, US$ 753 million, about 22 million tons more delivered, shipped in 2005. We also managed to achieve some financial records in terms of revenues. Clearly the company changed its size, its dimension, so the gross revenues line reached US$ 13.4 billion, 58.1% increase over the previous years... previous year; adjusted EBIT US$ 5.4 billion, 73.9% increase, our EBIT margin reached 42.5%; our EBITDA US$ 6.5 billion and only in the quarter of... the fourth quarter of 05 the total EBITDA in the fourth quarter was similar to the figure observed in 2002 for the whole year, just to give a dimension of the change that took place in the company in 2005. A combination of volumes and prices of course reflecting the good momentum for the industry. Finally our net income reaching US$ 4.8 billion, 88% increase due to the very strong operational performance, price environment and also the appreciation of the Real that contributed a little bit for this result and the return on equity 40.4%, a very strong performance. We have been showing an increase in trend in the net earnings figure, it is been increasing steadily at least since the fourth quarter of 03 and our adjusted EBIT margin is also reflecting the scarcity generated by the long cycle that we are living right now. This is our perception. So this EBIT margin is indicating that in order to supply all the demand that is being in the market it is impressive, it is imperative to provide the right signal to the market participants, so we are increasing our margins because it we have an increased scarcity of raw materials of the products that we sell and this is just a reflection of that, despite the increase in costs that we have been observing in the last few months, few years.

In terms of Ebitda, our total Ebitda was US$ 6.5 billion in 2005; ferrous minerals 82.5%, countervailing slightly the high diversification of our portfolio. In fact, there was a parametric change in prices that combined with the major increase in volumes determined this recover of the share of ferrous division in total Ebitda or cash flow generation of the company. And all these good figures that we are showing they are

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also accompanied by a very interesting synergy that we point out on the next chart, in which we show the evolution of the return on investors capital in the last five years and at the same time we point out that our weighted average cost of capital has been sharply reduced by at least 300 bases points and still we believe there is room for further improvement there, so this combination is a very powerful combination and in fact, in our view, explains a lot of the evolution of our market capitalization in the last few years. A higher return on invested capital combined with a much lower cost of capital.

On the shipments of iron ore and pellets, again, despite all the constraints the fourth quarter of 05 a new record was achieved, 67.7 million tons. We had all our systems operating in full capacity and every day it is a major fight to bring additional production and we have been successful in delivering despite all the difficulties, all the lagged delivered equipment, the disruption in machines, we have been able to ship, we were able to ship in the fourth quarter of 2005, 67.7 million tons of iron ore and pellets with a new record for both components, iron ore and pellets.

Of course, as Roger also put it, we are facing some cost increases and if we look at the composition of our costs of goods sold in the fourth quarter of 05 we will see that about half of the cost increase was derived from price increases in inputs and 25% or so, the appreciation of the Real and 47... and the other 25% the increase in volumes. So the Real appreciation is playing a role but the bulk of the change in costs is being driven by prices.

In terms of the Ebitda, volume has been the main driver of the increase in our Ebitda on a quarterly basis, a slight increase of US$ 46 million and volumes represented US$ 91 million so of course, again, the appreciation of the Real is playing, is there reducing the total positive impact in Ebitda.

We also would like to highlight at this stage, in which we are announcing very strong results in the financial, in the operational side, that we also intensified our efforts in terms of our corporate social responsibility, which is, in our view, a key point to support our long-term competitiveness and we do operate in a complex country, in a complex society. So we spent US$ 60 million in environmental protection and about US$ 70 million in social actions in several fields and we believe - strongly believe - that it is strategic to ensure a smooth operation in the long term of our company. We have to be well perceived by the community, by the society. We must have a positive perception about our role in terms of developing the areas in which we operate. Another important consideration is regarding safety in our railroad operations and it is in the next chart. We show a sharp reduction in accidents per millions of Trains~~XXX (19.31)~~ kilometers in all our operations. In Carajás from 12 to 5 and Vitória Minas from 34 to 9 and FCA, the more complex railroad, from 86 to 29.

Turning to the second part of our presentation, today we are going to comment a little bit on how we see the... what is our outlook for the market in the next few years or so. We do believe that we are in this long cycle as we commented before. It is nothing short-lived, it is something that will stay for a few years in a row yet, we see current growth in the world economy as a benign one, of course some hiccups here and there may be... may occur but nothing that will change the growth trend in the world economy in our view. So for this year we are expecting similar growth rates for the world economy to the one observed in 2005, about 4%, but different from previous years, now we are observing a stronger contribution of the other engines, as we put it. In fact, Japan domestic demand in construction and investment for domestic consumption is increasing so this is an extremely positive scenario and we also we are already seeing discussions about tightening of monetary policy in Japan. That's extremely positive. Of course we have some short-term volatility there but just consider that a few years ago the problem was the other way around. Deflation was the major threat to the development of the Japanese economy and now we are talking about the possibility of change in monetary standards by the Bank of Japan so this is impressive.

The other aspect is that Europe also is showing stronger signs of growth. So the U.S. should continue to show a strong performance, of course we have some adjustments due to the Katrina effect in the fourth quarter of 05, but we do believe that the growth in 2006 will be strong and very widely distributed it in terms of geography.

The Chinese, coming to the Asian market, the Chinese GDP should continue in our view. There is nothing in our view that would prevent them in terms of growth, we are expecting a even higher growth rate for 2006 compared to 2005, that was about 10%; we have a slightly higher growth rate expected for the Chinese GDP, it is around 10.5%, and then the Chinese economy should continue to grow around very high figures between 8 and 10%. There is no change in our perception about the Chinese fundamentals, we see no reason why they wouldn't grow as mentioned before; strong balance of payments position; strong macroeconomic indicators and more than that the need and willingness to pursue a very fast urbanization rate. So this is something that has profound impact in terms of the balance between supply and demand, particularly in the raw materials industry.

And the next slide shows that the trend continues. Imports of iron ore in January of 2006 by China were the highest ever in nominal terms, about 26 million tons but according to our seasonally adjusted figure it would be around 29 million tons. So it is an all-time high and this in our view only shows that the strength continues. It is a very good performance for a month of January, as we put it, and in the next page we show that iron ore inventories, compared to the monthly pig iron production, is being declining almost steadily and reached in December 2005, 0.95, down 30% from the levels of June 04. So clearly, if we look at the nominal inventories, we don't have a clear picture of what is actually taking place. What we have been telling you for some time steel production increased a lot, but they keep saying, some players keep saying that a inventory of 33, 35 million tons is a high level. Compared to what is being produced actually what we observe is a decline of the total inventories available in the ports.

In terms of our production, CVRD iron ore production grew 15% per annum from 2001 to 2005 and is expected to reach 300 million tons in 2007. This is very important. It shows that our commitment to our clients is extremely strong, we increased our production from 2001 by 100 million tons until 2005, and in two years time we are having 66 million tons more. In order to do that it is imperative to have the right signaling by the market so CVRD must have the right stimulus, the right incentive to put all this production in place because, as we observed, there are inflation in course, there has been a lag in terms of availability of equipment and it is not an easy environment and in order to deliver all that we must have the right signaling in place and we believe that that will be the case. Our capacity of expansion should be absorbed by the growth in demand that we are anticipating and also the need, the much needed spare capacity that we must create; we have none the current times so we need to create some spare capacity and Martins is working very hard on that and also there is the issue of the substitution of spot market sales that, in our view, is an important room for further growth in the market, in Asian market in the future, I will comment a little bit more on that in a few minutes. According to our estimates the seaborne trade should reach 730 million tons in 2006 and the Chinese demand should be around 325 million tons, a growth of about 50 million tons in 2006 and with more modest growth rate in 2007 and 8. But would this be the potential growth rate of our shipments there? We don't think so because we believe that particularly in the case of the spot market there are opportunities there for major players like ourselves. So, if you look at the spot market, the main characteristics that we could indicate is that they are showing, the spot markets, are showing higher prices; they have much more volatility than the regular market; the quality of the material delivered under the conditions of the spot market are clearly poorer and more important than that for operations that require predictability, like a blast furnace, the uncertainty of frequency of shipments is a matter of concern so we do have some room for further presence in this market and I will just quote something that I just read in the news that there is a comment - that is in the newspaper Hindustan Times in India - that the minister for steel there would have recommended the suspension of the supply of iron ore for China given the very strong domestic demand in India. So this is the sort of situation that we are facing and if you look at the total spot supplied by mostly Indian players in 2005, about 70 million tons of the spot market, of the total consumption of iron ore in 2005, was provided by Indian producers. So, if this is true and here the same news said that the minister would have suggested to reduce the supply of iron ore for Korea and Japan as well, this would have a major impact in terms of the seaborne trade. I am not saying that this is the case, I am just reading what I just saw in the news because this last few days we have been flooded by several contradictory news regarding the market so we would like to indicate that the fundamentals of the market remain very, very strong and could be even stronger on the raw material standpoint in the future.

In our view, again, minerals and metals prices are expected to remain well above historical levels due to the demand strength. Now we have the very interesting combination of a lot of investment funds being brought to the market – to this market - due to the perspectives of value creation there in the future. We have higher risks of supply disruption implied by the full capacity operating; this is something that we want to account for. The other day we had ~~indians~~ Indians blocking our railroad and this affected our production, so if the rainy season is heavier than usual this will affect our shipments and if there is a conveyor belt that is not working properly we will have a problem in our production and this sort of aspect that we do have. We have chronically low inventories as we put there and the industry of equipment is not able to deliver all the equipment that we need. With that I will close my initial statement and again, as a said, our colleague José Carlos Martins, the Director, Executive Director in charge of Ferrous Division and in charge of the price negotiation this year to address all your questions. Thank you very much.

Q&A session

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the “star” key, followed by the “one” key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, please press *2.
Please restrict your questions to two at a time.

Mr. Barbosa: I understand there are no questions?

Operator: One moment sir, please stand by.
Excuse me. Our first question comes from Mr. Ivan Fadel with Credit Suisse.

Mr. Ivan Fadel: Hi, good afternoon Fabio, everyone. My first question is related to the pellet market. How do you see demand going forward if there is any weakness in the demand from pellets that you are feeling right now or you believe that it is going to be strong for the following... in 2006 specially and onwards? Thanks.

Mr. Martins: Here is Martins speaking. Good morning Americans, good morning Europeans, good afternoon and Brazilians good afternoon also. Speaking about the pellet market, normally in the period of negotiation, price negotiations, we have normally a weaker market for pellets not because customers are canceling orders but because they are postponing orders, postponing the delivery and we think that it is part of the negotiation process. CVRD is the main iron ore producer and has a main role in the negotiation process so we normally feel a little bit more this weaker situation during the period of negotiation, it happened similarly in the years in the former negotiations OK? But we didn’t see any structural changes in the marketplace. We are keeping our investment in new pellet plants and we really believe that this market will grow above the iron ore market in the future.

Mr. Fadel: Do you know, I was just looking at the breakdown of your iron ore and pellet sales and there was a sharp decrease for Italy. Is there any specific issue on that or it is normal?

Mr. Martins: It is because in Italy our main customer is one of our shareholders, is a partner of us in Itabrasco, OK? He was taking more iron... more pellets than his own production with us and they reduced a little bit this year because they increased their sinter plant capacity but we don't see any structural change on it, I think it's part of the moment we are living in.

Mr. Fadel: Just as a second question, I was just looking at slide 22 the estimates of production for 2006 and 7 and just trying to match that with the already announced projects for iron ore so if I add all the projects announced: Carajás 85 and 100; Brucutu phase one and two; Itabira mine, Fazendão and Fábrica, I get to level of around 68 million being added so does that mean that there are more projects or you believe that all of those projects that I mentioned already will be full steam in 2006?

Mr. Barbosa: Ivan, our estimate, our best estimate currently increase in production is this one you see there with all those products that you mentioned, so 30 million tons in addition to the production of 2005.

Mr. Martins: Because we have some mines that are finishing, are exhausting the resources, so we have both situations, new capacity coming on stream and also some mines that are finishing their production period.

Mr. Fadel: OK, very helpful. Thank you very much.

Mr. Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Rodrigo Barros with Unibanco.

Mr. Rodrigo Barros: Good afternoon gentlemen. First, regarding the iron ore demand. as far as I understand there was being a lot of confusion or lack of agreement on what would actually be the demand of iron ore and I guess Nippon Steel said that without this they couldn't even talk about prices and then last week China Iron & Steel Association issued a very interesting news showing 13% in their estimates of internal demand in China for steel and consequently for iron ore. I wonder... my question is how to negotiate with Chinese when during negotiations all the news we get that they say that the market is weak and their own association predicts 13% in domestic demand? What kind of... how to reach a consensus in that kind of environment?

Mr. Barbosa: Well, one thing that we need to state very clearly; we are selling every ton of iron ore that we are producing, we don't have any stock on inventory in our ports, every ton that we produce we are delivering and I can tell you the Chinese are taking the majority of this capacity increase. We are not used to negotiate prices through the press, but the more they talk to the press I think the more the case is in our favor, because they are demanding more iron ore and we are selling all the iron ore they need. I don't know what will be the production in China next year, how many iron ore they will buy effectively, how they are producing internally. We have our projections and Fabio presented it, we expect 50 million additional tons being imported by China next year and we have the orders for that. We have every day a Chinese guy in knocking my door asking for more iron ore. So we needed to increase our capacity, Fabio told about the situation relating to equipment, contractors, parts and also the costs related to that and surely we need an additional price increase to continue to deliver iron ore. CVRD is the most reliable supplier of iron ore, we have been increasing capacity fast, we continue to grow 10% per year our production, January we increased, February we increased, every month we produce a little bit more and every ton that we produce we are selling, so the negotiations are based on this, OK? We don't go to the press; we are not looking for administrative measures to cool down the market or things like that. What we are doing is doing what we need to do, to increase production, to develop new projects and to supply the demand, that is what we are doing and negotiations in my opinion is developing very well. It's tougher this year than last year, but you have to convey that... you have to see that this year... last year we had a big move in the market place, one of the suppliers changed a big volume from one customer to the other, so at that time this created a tension in the market that favored a very fast negotiation. This year we don't have a situation like that. But in the past we had negotiations that went through even May to reach an agreement and I really believe that we are going to reach an agreement before the New Year starts, OK? So we are not looking so much to this kind of information that we see in the press every day and we are attending to the negotiations that we have with our customers and I can tell you they are developing very well and we think under our perspective is going in a way that we can reach an agreement sooner than later.

Mr. Barros: And my second question regarding negotiation. Is freight rate and exchange rate this year being an issue of discussion? The difference between spot and freight rates I mean?

Mr. Martins: Could you... clarify please Rodrigo...

Mr. Barros: Yes, sure. One of the issues that I believe is important in the negotiation is the savings that can be achieved if you have a five-year contract of a freightement rather than buying freight in the spot market, which would be US$ 25 I guess from Brazil to China. Is that issue... is that argument important in the negotiations or is something that is intuitive for the customers?

Mr. Martins: CVRD has a long-term policy to sell FOB prices. The freight part of the cost is our customer's question. They have to... if you look Europeans, if you look the Japanese, they buy their freight long term and they have very important savings by doing that. The Chinese, because of their... it is a Chinese characteristic, they prefer... you see that they buy iron ore in the spot market and they buy a lot of freight in spot basis. So I think for the Chinese, considering that they will continue to be dependent on imports, I think that the Chinese need to move to contract freights long term. I think this will help them to reduce their costs, but I cannot influence their policy, it is something that the Chinese have to do. And you know that the Chinese steel industry is very fragmented, the biggest Chinese steel maker produces 7% of the total production. So it is very difficult to see if they can move for a long term contract, probably they would have to be a little bit more consolidated as a company in order to move this way. But in my opinion - and you raised an interesting question - is a very important way that the

Chinese could reduce their delivered cost for iron ore, by contracting long-term freight and bigger vessels. But it is up to them, we are not... we do not intend to change our policy to sell FOB, but we don't intend to buy the risk of the freight, this is customer policy not CVRD policy.

Mr. Barros: Thank you very much.

Operator: Thank you Mr. Barros. As a reminder, please limit yourself to one question and a single follow up. Our next question comes from Andrea Weinberg of Merrill Lynch.

Ms. Andrea Weinberg: Good morning. Hi Fabio, congratulations on the results; let me go through my first question and it is related to taxes. We saw a major reduction in taxes; actually your effective tax rate for the year was 14%. I just wanted to understand from the effect of the tax planning on CAEMI how much of that is recurring and how much of that is going to lower CVRD's taxes going forward?

Mr. Barbosa: Thank-you Andrea. Well, we don't believe this will be a meaningful and recurrent effect. Actually we think that for the whole group it is a minor effect considering the size, the relative size of CAEMI compared to our overall revenues and structure. So we had in the specific case, besides the restructuring of CAEMI's companies abroad we have the effect of QCN that was not taxed and it was a major US$ 126 million effect and this also contributed, when you look at the overall figures, to reduce the effective tax rate. Also don't forget that we also have the appreciation of the Real contributing to increase the impact of incentives and the interest on shareholders' equity, so it is a combination but we don't see as a major issue going forward.

Ms. Weinberg: OK. Second question quickly; you've been talking Roger said and Martins and yourself about the Capex and how much price you need to continue to produce... investing on your own projects. I just wanted to understand because your Capex that you announced US$ 4.6 billion; how much... what is your foreign-exchange rate that you assume on the 4.6 because it is probably closer to 2.5 and we are at 2.10 or 2.15. I just wanted to understand how much of the Capex will increase at the Real at 2.10?

Mr. Barbosa: Well, we are not assuming that the Real at 2.10 in the long-term exchange rate for the Real. You see, this particular week we observed a lot of volatility in the financial market. The Real two minutes ago was 2.18 or 2.17, something like that, so it is too early to assume that this will be the permanent exchange rate or the average exchange rate for the year. But of course, as you know a major part of our investments are Real denominated, slightly over 80%, so this would have an effect compared to the 2.50 that was initially thought. So this could increase the total cost of our Capex per ton and this is an important consideration given the very negotiations that are taking place right now. So we are making all the efforts to bring to the market 30 million tons in additional capacity this year and 35 million tons more in 2007 and the Real has been an issue in terms of Capex cost and as we... even if it is 2.10, but if it is below 2.50 it will increase a little bit the cost of our Capex per ton. I don't know Martins if you want to comment a little bit on this...

Mr. Martins: It is not only a question of our Capex. On a market basis the new price has to reflect the replacement cost of the new capacity, because if you look at the industry you have lot of talks about new mines, but where? We saw a lot of movement in Australia also, but when you look the Capex is near US$ 100 per ton of capacity because you have to go for further mines; you have to build infrastructure; also you have to beneficiate the iron ore, because the best resources are already under exploration. So the question is not only the present situation of Brazil, the currency and equipment prices and so and so, but we have to look the whole iron ore industry. And look for new projects, for new capacity bringing to stream what will be the capacity? And I can tell you the numbers I saw is near US$ 100 per ton of production capacity. We don't have too many brown field opportunities so we think the Capex... the prices have to reflect this marginal cost of new capacity all over the world. That is the point that has to be considered besides the present situation of our specific project that we are conducting.

Mr. Barbosa: That is an important point. When we look the investment effort that is being made by the several players, our competitive advantage remains. There was an inflation in course for the whole industry, but our Capex per ton, even with the sharper appreciation of the Real is still the most competitive in the industry, that is something that we should keep in mind. And the other aspect is that it is precisely... this is part of the long cycle, this inflation in costs of equipment that increases Capex cost and also operational costs across the board this year.

Ms. Weinberg: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question Ms. Weinberg. Our next question comes from Daniel Altman with Bear Stearns. You may go ahead sir.

Mr. Daniel Altman: Thanks, good morning. The first question is on iron ore. There was a quote this morning I guess from Roger Agnelli saying that both sides may be left a little bit unhappy from this process. I wonder if you can maybe define, if not the number, at least the thought that went into that comment. Similarly on iron ore if you do reach a point where the Chinese just refuse to budge from say a rollover prices, what recourse does CVRD have in terms of... would you ever consider reducing your sales to China or producing... what type of recourse could you have if they negotiate in that way? And then the second question is on costs. Fabio, I guess a couple months ago you were starting to I think introduce the idea that maybe cost pressures were starting to flatten out and I wonder if that is still in your view, if you believe that costs in the next couple of quarters will be similar to the fourth quarter or whether you see them up or down? Thanks.

Mr. Barbosa: Thank you very much for your three questions. On the comment made by Roger, I was with him in the press interview; was simply saying that a good deal, he spoke conceptually, a good deal when you are dealing with clients, long-term clients, should be one that both parties are not totally happy. This is the meaning of what he would say, that both parties would concede, would... in order to reach a mutually satisfactory agreement. That was his comment that is the concept of his comment, so no news there. And as for the negotiations we would, as Martins said, we don't anticipate or we don't discuss our negotiation strategy publicly, we discuss our ideas with our clients and then, when we reach an agreement, we inform the market, but we would not like to make any comment at this stage regarding potential alternatives for situations that are not presented. And on your second issue yes, I commented on the flattening, of course. We do still believe that there was a... there is a trend of reducing the marginal increase of costs overtime. Just consider that, for instance, steel, steel costs increased by almost 50% last year in dollar terms. It is something that we would not expect to happen in 2006. Also we are trying to reduce our energy costs through several measures that we put in the report, as you saw, in order to reduce, to balance a little bit the negative impact that the Albrás contract is having in the overall figure. We do... we are expanding our operations, so we are going to hire more people, we are going to generate more jobs so the payroll account should increase and also the salaries are higher but I don't see as a whole that we should expect additional cost increase that would be growing at a rate that is higher than the one observed in 2005. There was a sharp appreciation of the Real in 2005 and there was the whole evidence of the inflation in equipment prices and other components; there was the energy price increase; so I don't believe that we should expect growth rates of course remaining at high levels.

Mr. Altman: OK, thanks very much.

Mr. Barbosa: Thank you Daniel.

Operator: Thank you for your question Mr. Altman. The next question is from Andres Perez of Morgan Stanley. Please go ahead.

Mr. Andres Perez: Hi Fabio. Just following up on my colleagues' many questions. If you could go into... Roger mentioned that you are looking into improving efficiency at CVRD and helping to reduce costs maybe if you could go over what some of those efficiency improvements that you are looking into essentially beyond the... beyond any further strengthening in the Real if you look at outsourced services or any other... and the other costs inputs, what items do you think you can directly have a hand helping to limit the increase? And my second question is if you can give us an update on how the proceeding with CSN is going? I know that it is still an appeal, if you can you give us a timeline as to when you think that might be resolved?

Mr. Barbosa: Ok Andres, I will let Martins answer this issue of cost because he is responsible for the largest division in our company, he could comment what he's doing to reduce costs more properly.

Mr. Martins: I think the cost reduction effort is mainly based on plant efficiency. We have a large program to increase equipment efficiency. The very nature of the mining industry, the economies of scale are not so big because the system of equipment we use – trucks and excavators and drilling machines and so, you don't have a big effect of economies of scale. So what you need is to improve efficiency of this equipment then you can produce more with the same expenses so then you reduce costs. We have a particular program for cost reduction on maintenance. Maintenance is a big part of our cost and we are working very hard in order to reduce it and efficiency overall is also another big effort. Besides that, you know our policy to hedge our energy costs by developing sources of lower cost of energy than market prices but the main task for us, the main target we have is based on equipment efficiency. We think that we can improve efficiency in our equipment at least 10% over the present level, so you can have a cost reduction almost of the same size. So that's our main target now. Besides that, you have a problem of negotiation process with the suppliers. The moment is not so good for price negotiation with suppliers, we have a lot of inputs that are in short supply - conveyor belts for instance; tires for trucks and even parts for equipment because the steel price is up, the copper price is up and aluminum price is up; so the moment for cost-reduction based on price negotiation with suppliers is not so easy, so our focus is mainly on equipment utilization and in maintenance cost as a whole. We are renewing our fleet; we are putting outside the lower efficiency equipment that we have in place. So that is what we are doing. Also another point of cost reduction is efficiency of ports, at the end is the same point to increase operation in the ports and by doing that we are able to reduce the demurrage. Last year we had a very strong reduction in this cost and for this year we also have a very bold plan to reduce demurrage costs. This is very important because it reduces the costs not only for us but for the customers also and then can improve the competitiveness of our products.

Mr. Barbosa: What is the second question again Andres?

Mr. Perez: If you could just give us an update on how the proceedings with CSN are going on Casa de Pedra? When you think this issue might be resolved?

Mr. Barbosa: Well, this is a legal issue. We... there was a provisional... there was a CADE decision back there in 2005, the end of 2005, and in our view there was something that was not adequate in the decision that was taken regarding the proceedings of CADE and we went to the courts and we were granted with a provisional decision that interrupts the clock, let's say, until we have a final decision of the Justice regarding the double vote and the time is not running. There is, of course, the issue of the final right of CVRD regarding the contract that was signed, there is a value there and we still have to… when the procedure is resumed, we still have to discuss what will be the value for this asset in our view. But there is no reason why CSN should not be investing in its own operations at Casa de Pedra mine, because the contract is working, as before, that's what was the content of the legal decision. So we just have the first refusal right. If they want to expand their production they are allowed to do that and we will exercise our right according to our needs and that's it. We are not impeding, we are not preventing them on doing whatever they feel like to do regarding the investment or the expansion. If the expansion is not in place it's not because CVRD is interrupting or blocking or preventing them of doing that and we are eager to get the first shipment of our 5 million tons of iron ore according to the contract that we signed with them and so far we haven't seen a gram of this shipment but we are eager, anxious to get this additional ore to deliver to our clients this year, according to what was established in our contract. So, business as usual, they are free to pursue their investment plans as they have ever been in this connection.

Mr. Perez: Thank you.

Operator: Thank you for your question Mr. Perez. The next question is from Sahyan Ghosh with SAC Capital. Please go ahead.

Mr. Sayan Ghosh: Hi, thanks for hosting this call. Daniel Altman already asked my first question so I will just rephrase it a little bit. If you walk away from this year's negotiation with an outcome you are not totally happy with would you consider scaling back some of your longer-term expansion plans as the supply side corresponds to a set off new environment?

Mr. Martins: As I told you before I am completely confident that we are going to reach a reasonable agreement with our customers. I don't see anything, anything in the scenario that will prevent us to reach an agreement. I can tell you the majority of our customers understand that some increase will have to come and we are now discussing how much. So I did not see... I don't see any possibility of not reaching an agreement. I don't believe that anything could happen that will prevent us to reach an agreement. We have been discussing, negotiating with customers for so many years, this benchmark system, and if we don't reach someone will reach an agreement. That is the way it was all the time, if you are not able to reach an agreement, the Australians will be able or the Africans will be able; someone will reach an agreement. That's the way things are and I don't think this will change.

Mr. Ghosh: OK. I just had a follow-up question: on your production plans for 2006. You have a 13% increase in iron ore shipments projected, which will go into the contract market. My question was on the alumina side. Your new production was just coming on there. Is that going to be sold on a contract basis or in the spot market?

Mr. Barbosa: Well, the bulk will be sold actually is already under contract, I would say that we will keep the share of 80% to 85% under contract and 15 to 20% in the spot market.

Mr. Ghosh: OK, and for the contract portion could you just comment if it is like a three-year contract at what percentage of aluminium ~~alumina~~?

Mr. Barbosa: It ranges from 3 to 10 years.

Mr. Ghosh: And what percentage of aluminium ~~alumina~~ is that contract?

Mr. Barbosa: It depends on the duration of the contract, but is meaningfully above the old average of 12.5%, it's closer to 13.5, in the range of 13.5 to 14.5.

Mr. Ghosh: OK, thank you.

Mr. Barbosa: Thank you.

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

Mr. Paolo di Sora: Hi Fabio. I have a question regarding the supply/demand environment on iron ore going forward. I saw Roger mentioning that he expects the market to remain tight at least for the next 18 to 20 months. So if you guys could please give a guidance of when you expect the market to be eased and therefore if you have any expectations about medium to long term iron ore prices in a new environment of more easy supply/demand?

Mr. Barbosa: Well, I will comment a little bit and then Martins could complement. You know, Paolo, back there in 2002, early 2002, we expected the iron market to be balanced by early 2005 and we missed that by a large volume of tons. By that time we did not have the deal that this was what we see today as a long cycle actually happening, taking place. So we of course, we also share the view that trees don't reach the sky, that we should not expect growth rates in China to remain as high as they were in the recent past, although there is a second structural player that may affect the market, which is precisely the Indians. India as a major player in the seaborne, either by reducing its supply or by becoming a net importer in the sea borne trade if the growth rates catch up as those of China. So we believe that there will be... we are working according to our best estimates of future growth between 2005 and 2008 of 6.5% for the world; China reducing by two-thirds its growth rate... the growth rate of imports of iron ore observed in the previous five years until 2005 and the rest of the world growing just 1.6% moderately, but still growing. The sea borne trade should reach 815 million tons by 2008. So as we see, we see on the one side, the demand side, a very, very strong demand driven by China and maybe a disruption in this supply/demand balance of India in the future and a benign scenario worldwide.

In the supply side, a lagged supply response due to the constraints in the equipment industry and the very unavailability of people and room to increase our production further. so Roger's comment should be seen in the context of at least a couple of years more of tight market and your other question was...

Mr. Di Sora: No, I just posed this question. The second question I have is regarding the corporate governance. I see many investors discussing which kind of premium or discount CVRD should trade vis-à-vis its peers and one thing that is a major issue is the two classes of shares so I would like to know how much the management is pushing with the board in order to eventually improve the corporate governance on the company by having just a single class of shares?

Mr. Barbosa: Paolo, this is way beyond my shoes and I understand your point and I will convey your point to those who have the power to decide on this issue, OK? I hope you understand.

Mr. Di Sora: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you for your question. The next question is from Alberto Arias of Goldman Sachs. Please go ahead.

Mr. Alberto Arias: Yes, good morning gentlemen. A couple of questions; the first one is on copper. In your announcement, your press release, you talk about Sossego not being able to meet the signed capacity even in the year 2006; if you could please elaborate a bit more in terms of the technical aspects that are driving this and is this having any major additional concerns in the project development pipeline that you have on the copper and nickel industries?

Mr. Barbosa: Alberto, thank you for the question. Well, the issue of copper is part of our learning process. Last year we found out that the hardness of the rocks was much higher than the one we expected in our feasibility study. There was a geological mistake that cost us a lot in terms of timing and production compared to what we… the very message the company conveyed regarding the expectations for the ramp-up. What I mean is that it's natural to have problems like this in the ramp up process, but we under-estimated those difficulties when we indicated that the ramp-up process was not... or that even during the ramp-up process we could reach the nominal capacity of 140,000 tons per year. Following this problem with the hardness of the rocks that affected our fixed costs and this is part of the reason why we believe that the pressures to increase costs in 2006 will be easy a little bit, the drilling machines we did not find them on the shelf, we had to order them, we also ordered used ones to comply with the total requirements of the drilling process and the hardness of the rocks also affected the crusher. The productivity of the crusher for this year... Martins is reminding me there was a problem with the supplier that I won't mention the name, but there was a problem with the quality of the equipment supplied. So we changed just a few weeks ago the steel cover of the crusher in order to deal with a much harder material than we were drilling and this of course implied a reduction in the potential production compared to what was originally thought. So, answering your question, we are facing issues that are normal to happen in a ramp-up process, it is part of our learning process. We do believe that copper production this year will be higher than the level of 2005, although lower than the nominal capacity of the plant that should be fully operational next year.

Mr. Arias: OK. A follow-up question just following on that point. We see that your project development pipeline is even more aggressive on even more technically challenging projects like nickel; nickel laterite ~~XXXXXX (14.59)~~ technology which has created major problems technically in very prestigious nickel companies. Should we be concerned that some of the problems, technical issues, geological mistakes that we have seen in Sossego, could potentially happen in some of your new projects or are you pulling some kind of contingency plan, or re-evaluation of all your copper and nickel projects to make sure that this doesn't happen again?

Mr. Barbosa: Well Alberto, I believe that we did have a geological sort of problem that we should not expect to have in a laterite~~XXX (15.35)~~ deposits ~~project~~ like the nickel you know better, but is something that we do not expect, although we learned some lessons in this experience and you can be sure... I believe that if you look at our indications of production for the nickel project you see that we have a much more cautious ramp-up embedded in the figures that we are indicating. So, I don't believe that we will face the same type of issues there, but at the same time we will be much more cautious in proceeding with this project, we don't fear the technological challenges that we have ahead.

Mr. Arias: OK, thank you.

Mr. Barbosa: Thank you.

Operator: Thank you Mr. Arias for your question. The next question is from Leo Larkin of Standard & Poors.

Mr. Leo Larkin: Good morning. Could you give us guidance on FG&A for 2006?

Mr. Barbosa: Could you expand that a bit ... oh, depreciation, OK. Well, we should be... sorry, I was looking at something else. We are incorporating very large projects this year, we are incorporating Brucutu, it is a project where the total investment is around US$ 1 billion; we are incorporating Alunorte expansion stages 4 and 5; we have one idle plant that is being also added to the total assets of the company; the expansion in Carajás, it is about US$ 2 billion at least in terms of asset base that should be combined with the appreciation of the Real that has an effect there. So in order to look at all overall figures you have to adjust for that.

Mr. Larkin: So in our models we should be using 2 billion?

Mr. Barbosa: Sorry?

Mr. Larkin: For modeling purposes we should be...

Mr. Barbosa: 2 billion as additional assets, I think that is a good figure. I would check on that and if it is different from what we are indicating I can inform you. Could be slightly higher, slightly higher.

Mr. Larkin: Thank you

Mr. Barbosa: Thank you.

Operator: Thank you Mr. Larkin. Our next question is from Raphael Elias of Deutsche Bank. Please go ahead.

Mr. Raphael Elias: Good morning. I just wanted to see where can we get detail on the balance sheet, where can we see it opened up and basically what I need is the breakdown in debt, short-term and long-term and also details on the different debt instruments as it stands right now?

Mr. Barbosa: Well Raphael, Alessandra Gadelha will send detailed information about the debt, but roughly 95% is US dollar-denominated long-term debt, it is about that, but she will send to you.

Mr. Elias: Thank you.

Mr. Barbosa: Thank you.

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

Mr. Barbosa: Well, thank you very much for attending this conference. I hope you liked it, myself and Martins and all our colleagues here will be available for any further questions you might have. Thank you very much for your attention.

Operator: That does conclude our Companhia Vale do Rio Doce 2006 conference for today. Thank you very much for your participation. You may now disconnect your line.