

# Q3 2003 Earnings Call

## Company Participants

- Fabio Barbosa, CFO
- Marina Martini, Investor Relations
- Unidentified Company Representative, Unknown

## Other Participants

- Alberto Arias, Analyst
- Daniel Altman, Analyst
- George Bernstein, Analyst
- Katie Blacklock, Analyst
- Manuel Salazar, Analyst
- Mr. Fritz Longcar, Analyst
- Paolo Desoto, Analyst
- Paula Buschier, Analyst
- Sebastian Luparia, Analyst
- Thomas Denelesosa, Analyst

## Presentation

### 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. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I would like to turn the conference over to Marina Martini [ph], from Salsa [ph] Financial Investor Relations.

### Marina Martini

Good afternoon, ladies and gentlemen. Welcome to CVRD's conference call to discuss Third Quarter 2003 results. I would like to mention that the slide presentation has also been made available on the Company's Website at [www.CVRD.com.br](http://www.CVRD.com.br) during this call.

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 those anticipated in any forward-looking comments, as a result of macroeconomic conditions, market risks and other factors.

With us today in Rio de Janeiro this afternoon is Fabio Barbosa, CVRD's Chief Financial Officer. First, Mr. Barbosa will comment on the Third Quarter 2003 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.

**Fabio Barbosa** {BIO 1907620 <GO>}

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Thank you, very much. Good afternoon. Thank you, all for attending this conference. This presentation today is divided in two major items. First, I will comment on some performance highlights. And then I will comment on macroeconomics and business outlook.

Starting with the Third Quarter '03 highlights, this has been an extremely good quarter for CVRD in terms of performance. In fact, we had an across-the-board strong sales performance, with a record top line, which reached \$1,483,000,000, a 30.4% year-over-year growth, a quarterly record cash generation with our adjusted EBITDA equaling \$630 million, 21.2% year-over-year growth, a major increase.

And our bottom line showing \$468 million accumulating this year, \$1,278,000,000 -- a very strong performance in Latin American earnings after nine months. That compares -- it's a very close figure to the record registered in 2001 for the full year, when it reached almost \$1.3 billion.

As for dividend distribution, just last October 31st, we paid the second tranche of the minimal payment of \$200 million. And also the additional tranche of \$250 million. And in fact, due to the exchange rate variation, we ended up paying more in U.S. dollars than we anticipated. So we paid \$675 million in total, adding \$1.75 per share this year as a dividend distribution. That compares very well to the average of the period of '99/2002.

Finally, just to remind you that our projects are on track. And I will comment a little bit later on that. In terms of our sales performance, the next slide, you see our sales (inaudible) at \$46.6 million. And here we have \$3.4 million added by Caemi. If we take out Caemi, \$3.4 million, we would have \$43.2 million. So that's also a very good performance, compared to the Second Quarter of '03.

This 4.1% increase is compared to the Third Quarter of '02, when we had a very good performance. It was 2% above, in spite of the capacity constraints we faced. In terms of growth, the 77.6% reduction is in line with our expectations, due to the sale of Fazando Dozlero [ph] and also the interruption of production in Fazando -- got up there by year, last year. So the reduction is very much in line with our expectations.

Manganese -- we had -- we had a very good performance, as well, 11.7% compared to the same period last year. And aluminum -- we recorded the effects of not only the consolidation from the North since the Third Quarter of '02. But also the increased capacity which we started operations in Riolo do Norte, with this additional capacity Second Quarter of '03.

So the 7.47 thousand [ph] tons in the Third Quarter reflects now the current trend of production. And we are producing slightly above the 2.4 million tons capacity of the (inaudible) plant. So the plant is already fully operational in its expansion. As for aluminum, the increase in sales reflects a good position in the market, announcing some improvements in the operational capacity.

And the production capacity for our brass [ph] plant. Potash -- the reduction of (inaudible) reflects a lack of inventories that we used last year. But we don't have available this year. Despite that, we are operating the potash plant above the nominal capacity of 600,000 tons; in fact, we're operating at the end of [ph] production of around 650,000 tons, a very good performance.

As for kaolin, we have here the effect of the consolidation of Candonga [ph], with 68,000 tons. But even if it takes Candonga out of these figures, we would see a very good performance by the PSA [ph], in which in this quarter we present 114,000 tons. So the PSA is operating at an annual [ph] sales performance of over 400,000 tons. That could be a new record by year end.

As for railroad, again, a very strong performance, a new record. And in terms of (inaudible) kilometers, 7.4 billion in this quarter, a 10.9% increase over the same period last year and force [ph] an additional 16.1 [ph] %. So very good performance in all segments of business. And you'll see in

the following chart the quarterly performance (inaudible) with our 46.6 million tons including, in green, you can see there the Caemi production, 3.4 million tons.

The next slide shows you the general cargo business and our new record. And you see that in all railroads we established, we presented extremely good performance, with new records for the overall business of general accounting CVRD.

And in the next chart, you'll see that the logistics service performance is decoupled from the Brazilian GDP growth rate. In fact, you'll see the performance that the Brazilian economy recorded downturn in the Second Quarter of '03. In that same period, our general cargo business increased and reached very strong performance, growth rates over 15%. So there is a clear relocation or, in other words, we're capturing market share with our logistics service from all the services being provided by other players in this market.

In terms of sales revenues and EBITDA, in terms of distribution by product, we keep counting heavily in our iron ore and pellets business, with slightly over 60% of our gross revenues that reached \$1,483,000,000, as I mentioned before.

I would like to highlight the performance of the aluminum chain; it 16.4% of our total revenues. And you'll see that it is in line with the additional capacity held both in MRN [ph] and Alunorte. There's not much there reflected in our overall statistics. Logistics, 10.7%; manganese and ferro alloys, 5.5, clearly [ph]; potash and other nonferrous [ph], 6 [ph] %.

In terms of geographic distribution, Europe is still our largest market, in terms of regions, closely followed by Asia, with 25.5% in total here in Japan, China and emerging Asia. And all the rest of market, in which about half of it is actually -- we have (inaudible) that will export pellets of foreign clients. In USA, 2.6% is still a small chunk of our overall revenues, with the rest of the world reaching 11.7%.

In terms of EBITDA, ferrous minerals is the bulk of our cash flow generation, almost 72%. And here again I would like to highlight the aluminum performance, the aluminum chain performance, now with 10.3% of our EBITDA generation; logistics, 8.4%, down from the previous quarter. And nonferrous and others, 9.3%.

The next slide shows you what we see as a very strong and stable operational performance. And you can see through the EBIT that presented further growth in the Third Quarter of '03, reaching 35%, as compared with the 33.2% in the Second Quarter of '03. And compared to 32.2% in the Fourth Quarter of '02.

The hike -- the peak reached in Third Quarter of '02 reflects, of course, the major devaluation of the currency associated with the volatility of the commodity environment in Brazil and international capital markets.

And the next chart compares our sales with our major competitors. We present our market capitalization as it was on October 31st, with about \$17 billion. Of course, below BHP Billeton and Alcoa. And we don't have the figures here for Erndal [ph] and Alcan. They are still [ph] ahead of us in terms of market cap. And right by the side of this chart, we show the net earnings of the Third Quarter.

Not all companies in the mining sector present quarterly results, as we do. And BHP Billeton, with net earnings of \$518 million, then we present our [ph] \$468 million. Of course, we have a much lower cash flow generation than BHP presents. So a very good relative performance, comparing the magnitudes of the flows in profits [ph].

And the next shows you our consistent strong cash generation that has allowed us to preserve a very strong balance sheet position. And in fact, on the last day of the month, our adjusted EBITDA reached \$2 billion. And we had just a small contribution of Caemi and FCA, with \$21 million, showing the increasing steady growth of our cash flow generation in the last few quarters.

Turning to the investments, our total CapEx program this year, we already spent \$1.5 billion. In terms of our projects, we spent 41.8%. Acquisitions, we spent 33% of this total. And stay in business [ph] CapEx, 35.2%. In terms of our growth CapEx, as we call it, we spent \$634 million.

And the large portion of this resources was allocated to the Sossego copper project with \$234 million. Sossego is -- we are expecting to be fully operational commercial operation, starting with the beginning of the Third Quarter of '04. This is slightly ahead of schedule.

We also present our investment in the aluminum chain. And the part of this investment here, Alunorte, is the conclusion of the third stage of Alunorte and the starting of the new investment in stage four and five. Paragomires [ph] is still a small portion of this total investment, due to delays we are facing in getting the developmental license to implement the project.

In terms of (inaudible) locomotives, we brought already 66 locomotives and about 1,400 railcars until the September, expending \$82.8 million in total on this activity. In terms of our power plants, we spent \$32.6 million. In Candonga and Aimores, Candonga will be commissioned by the end of this year, in December. And that is our expectation right now. And MRN was postponed for the Third Quarter of 2004.

We are concluding the Ponta da Madeira the first year, Ponata da Madeira port [ph], with \$9.6 million. And we are, of course, invested in our new mine, Fabrica Nova, in Carajas, the Brownfield expansion [ph] of Carajas for iron ore. In total, we are expending about \$39 million. In our exploration, out of our program, \$72 million is spent already. Half of this total, \$36.5 million.

And that is, we are slightly behind schedule, due to, again, some environmental delays, licensing delays that we cannot implement fully as yet. But we hope that, by the year end, we will have this problem solved. So we could (inaudible) back on track.

In terms of turning to the second section, the macroeconomic and business outlook, you see the first chart of this section. We are showing that expectations about the world economy developments are improving. And JP Morgan Global Manufacturing managers' index is showing an upward trend that's positive for the business as a whole.

And the next chart shows you that the contribution of the Chinese economy for the world's economies, particularly for the demand growth of the mineral and metal segment could be in a downward trend, although it continues to be extremely important, particularly in the iron ore gain [ph]. As you see, in terms of total growth of the global consumption for iron ore, the Chinese are contributing more this year than they contributed last year.

But in the other materials, there is a declining trend for the Chinese influence in overall demand. This could be indicating. And that's our expectation, a more consistent growth rate for the world economy, given the very good -- the very positive signs we are observing in the U.S. economy, the Japanese economy and Europe, in the European economic indicators.

The next chart shows you why this momentum is very positive for the metals and mining industry, because if we consider the longer perspective, there was a trend to reduce investment in expending capacity in the mining and metals industry. And this is, of course, in line with the slowdown of the world economy.

This year is the third year in a row that we are growing less than the long-term trend of 3.5 to 4%, in terms of the world GDP. But the perspectives for next year are much better. But meanwhile, the investment in additional capacity net [ph] of the market industry.

And in the next chart, you'll see also the mineral exploration was substantially reduced. So there will be, in our perspectives, a combination of capacity utilization and strong demand growth, resulting in shortages that will benefit, of course, the companies that are well-positioned, as we think is our case, in the metals and mining industry.

We expect the Chinese demand for (inaudible) iron ore to remain very strong. And in the case of the Chinese capacity, we, according to the Chinese Iron and Steel Association, it should increase by \$120 million by the end of 2005 from 2003. And it's about four times the Brazilian steel production. It's amazing what is expected for the Chinese market in the next two years, the next couple of years.

And they will need high-quality iron ore. And fortunately CVRD will be very well-positioned for that. And now, with our financial relationships enhanced by long-term contracts and partnerships we have with the Chinese clients.

And finally, we think that the current (inaudible), the current freight costs that are being observed will be solved by market dynamics through the increase of the supply of (inaudible) shipping capacity in two years.

Specifically, in terms of the seaborne trade, you can see on the next chart that China grew, continued to play a major role in the growth of this market. We expected the seaborne trade for 2004, 545 million tons, 5.8% above 2003, with Chinese demand representing about 25.6% of the seaborne trade. So it's important. Sorry -- 32% of the seaborne trade, with a growth of 25.6%. Sorry about that.

And we will be very well-positioned. We are increasing our capacity in the Carajas system, 14 million tons is extracting in 2004. And the Southern Systems additional 3 million tons, also in 2004. Fabrica Nova, phase one, 10 million tons in 2005. Grupo II, phase one, 12 million tons in 2006.

Grupo II, phase two, 6 million tons 2008. And Fabrica Nova, phase two, 5 million tons in 2009, a net addition of 40 million tons in this period. So the major contribution of CVRD to this market. And of course, we have always have flexibility to adjust Carajas production according to market demand.

Turning to the aluminum business, the next chart shows you the current status of the performance of spot prices versus contract prices. And of course, spot market, spot prices are reflected in the current shortness [ph]. But also in contracts, we are observing an increase of prices (inaudible) either to longer quarters [ph].

That is very positive for our expansion of Alunorte. That came in very good timing. And of course, most of our production is sold through contracts, long-term contracts. But we still have some productions of this sold in spot market.

The next chart shows you that the prospects for the aluminum prices have improved, as well. It's a combination of reduction in inventories and very strong GDP performance in the U.S. market in particular. So we are observing a reaction of the three-month contract prices. And you can see they're above the 1,500 level.

And at the same time, we are showing you that we have been able to increase the capacity [ph] (inaudible) 430,000 tons, due to operational adjustments and improved efficiency of our plant

there in Bascardian [ph]. And for 2004 -- sorry, in 2004, we expect an additional increase of about 5% in total production. As for [ph] quarter, again, very good timing for our project, our Sossego project. And prices reached levels over \$2,000 per ton, or over \$0.90 per pound. And inventories are down.

And if you turn to the next page, you'll see that the market is eager to get copper concentrate in this [ph]. We think that Sossego will restart its commercial operations at extremely good timing, with a synchronized world growth for the GDP. And specifically, some shortage in the copper mining.

Thank you, very much. And now myself, (inaudible) and Eduardo [ph] actually will be available for any questions you may have.

## Questions And Answers

### Operator

(Operator Instructions) Alberto Arias, Goldman Sachs.

#### Q - Alberto Arias {BIO 18302585 <GO>}

Good morning, gentlemen. Congratulations on the strong results. A couple of questions. The first one is with regards to market conditions ahead of the (inaudible) negotiations. Do you see the demand trends in China and in the rest of the world continuing? And how do you see the high transoceanic shipping rates having an impact on your competitiveness in delivering iron ore in Asia?

#### A - Fabio Barbosa {BIO 1907620 <GO>}

Alberto, thank you very much for your question. We continue to see a very strong demand here coming from China, despite the increase in freight costs. Our president just visited our Chinese clients. And in fact, what happened there is that we signed additional contracts to increase the amount we have to deliver to them.

And so far, the problem we are having relates to the lack of production to meet our clients' needs, in spite of this issue of the cost of freight. That (inaudible) but, as we commented in our presentations, market dynamics will solve that. And as we used to comment in the previous quarters, the quarter for the [ph] financials is rather an indicator of very strong demand.

And sometimes could be a leading indicator of price adjustments there, potential problems with demand. So what we see is very strong -- much stronger performance in terms of the world GDP, growth combined with the maintenance of a very strong, steady demand from our Chinese clients.

And there are no signs of acceleration there as yet. And as mentioned in our presentation, as well, they may be increasing by almost 50% the introduction of steel in the next couple of years. So there will be a lot of room for iron ore.

#### Q - Alberto Arias {BIO 18302585 <GO>}

My second question is with regards to the comments you had on some environmental permitting issues that Para Minas [ph] is facing. If you could please elaborate on what are the issues. And is this going to represent any type of delay in the pipeline of the expansion for Alunorte?

And is this affecting any other project, like some of your copper projects? You mentioned that it had affected -- it was affecting some of your exploration projects. Could you please elaborate on what is going on with the environmental permitting issues?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Okay. What has happened at Para Minas [ph] is that was delayed in the environmental from the government of the state of Farah [ph]. And there, the rainy season started. So we will have to restart the project and the development of the mine by the Second Quarter of '04.

So this is a delay of about four to six months or so, roughly. And, as the expansion of Alunorte has a longer timeframe, there will be no consequence for the starting up of the joint operation of Para Minas and the new expansion of Alunorte in our view.

**A - Unidentified Company Representative**

I'd like to stress that, even if we started development of Para Minas on April 2004, we will be able to start up the production of stage four and five of Alunorte in the First Quarter of '06.

**Q - Alberto Arias** {BIO 18302585 <GO>}

Has this affected any other project, like the copper projects? Are you seeing some of these environmental permitting issues affecting anything else?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

No, just this one. As I commented today in the press conference, we have several projects going on at the same time. And this is routine for us. And of course, it is an important project. And as we have a very good reputation, track record, we anticipate no problem. This is simply a bureaucratic delay that we hope to solve very soon.

**Operator**

(Operator Instructions) Sebastian Luparia, JP Morgan.

**Q - Sebastian Luparia** {BIO 1556310 <GO>}

Can you please comment on your tax rate, actually your effective tax rate was meaningless [ph]. Can you comment on what we should expect go forward?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Thank you, Sebastian. Well, the tax rate this year -- if you look at our income tax line, you'll see that we have a disbursement in the Second Quarter that was around \$100 million, due to some discretion we had in the courts [ph] with the Internal Revenue Services. And then that's a court decision we have to collect this amount.

So, if you take out this provision, we would be paying around 200 million (inaudible) in terms of income tax this year. It's about \$60 to \$70 million or so. Going forward, we think that we are growing, in terms of volume or saves, that we could have a marginal increase. But nothing that could affect the overall performance of the Company.

Sebastian Luparia My second question is also related to shipping price. I know you gave a very good explanation in the press release. But if you looked at the differential between shipping rates and iron ore prices, it's also very close to historical heights [ph].

How do reconcile the possibility in which China starts to substitute iron ore imports by either higher value-added (inaudible) if they start to increase the import of (inaudible) relationship with the cost for them not to import that product?

Well, Sebastian, it's, as we used to say, the iron ore supply, it's a long-term relationship, importantly, for CVRD. We have the quality that assures a very good market share, of course,

associated with the commercial effort we keep on the ground at our Chinese office in Shanghai and Tokyo and others efforts. Our president visits our clients there on a regular basis.

So we have a long-term relationship, joint ventures with them. And if you recall, we also have this sort of relationship with our Japanese clients. So this is something that doesn't change overnight. And -- as we can see by our Japanese experience. The other side of the (inaudible) import is that the market for shipments -- the cost of freight is already determining a major increase in production.

And you can see in the Asian shipyards, they are fully loaded with ships in construction, as reported now, Brazil is [ph] an additional 35 million -- 35 new (inaudible) sized ships on the market very soon. So the markets who are just on this side [ph] work. The price formation in the iron ore market is different; the relationship is different.

The cost of freight, the freights -- freights are a commoditized service. Iron ore is not. So I think this is a major difference one should take into account. And we do believe that our clients have the same approach because, again, we didn't start yesterday. We have been there for over five decades.

### **A - Unidentified Company Representative**

Sebastian, I would like to stress how important are the long-term contracts with the Chinese clients. Currently, we have a relationship with 25 active clients in China, covered by long-term contracts. Once you have a long-term contract, you are able to optimize this steel [ph] value change.

So it's very difficult for a client to move to another supplier that has not the product which is suitable to its blast furnace. So it's a major competitive advantage and, as Fabio was mentioning, there is no iron ore available in the world, at least of a reasonable quality, to meet the demands from the Chinese steelmakers.

And the domestic market, the cost, the FOB cost at the mine for the Chinese iron ore, is \$50 for a very poor quality product. So we're not confident, at least in the short term, with this problem created by the high freight rates.

### **Operator**

Manuel Salazar [ph], Santander.

### **Q - Manuel Salazar {BIO 2506203 <GO>}**

Good afternoon, gentlemen. Two questions here. The first one is, if you could give us an indication of third-party purchases in iron ore? And second, if you could give us an idea of what the mix of ore to pellets is, to China, if they are demanding pellets at all.

### **A - Fabio Barbosa {BIO 1907620 <GO>}**

Thank you for your question. As for your first question, with third parties, as of September, the third parties acquisition amounted to 7.2 million tons. And our best estimate now is that we will reach what we were anticipating in previous discussions we had with you was about 10 million tons for the whole 2003. The Chinese demand -- mostly, we sell finds [ph]. And the pellets are supplied mostly by the market [ph].

### **Operator**

Paula Buschier [ph], Schroeder's [ph].



**Q - Paula Buschier**

I have two questions. The first one is, if it could be more specific on the contracts. And you have with the tenants [ph] -- I mean, what percentage. And are there time. And if this includes expansion. And my second question is the ability to mention [ph] what part of your logistics group performance is explained by the steel industry. But if you expect the steel industry to reduce the export ratio next year, if you would be able to replace these clients with other sectors [ph].

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Thank you, very much, Paula. On the first question, if I understood correctly what you asked, all our contracts -- our sales ratio [ph] contracts, they wait from 3 to 20 years. And we're trying to establish now longer-term projects. And what I mentioned [ph] in the visit of our president in China. There was discussion about additional supply of iron ore, two long-term contracts with our Chinese clients.

**Q - Paula Buschier**

And what percentage of your sales to China [ph] are to long-term contracts, (inaudible) the expansion that you are planning?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

100%, Paula. And your second question -- could you please repeat it, please to.

**Q - Paula Buschier**

Yes. In the (inaudible) part of logistics, good performance or growth in volumes was explained by the steel industry. However, it is possible that the steel industry will reduce the amount of exports, because they will supply more to the domestic market. And I was wondering if this would imply lower volumes for your cargo business. And if you could replace it with other sectors.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

No, Paula. We're having precisely the problem the other way around. We are having the same supply constraints in terms of logistics service, if you could compare, as we do face in terms of iron ore business.

In other words, we're having to select our clients because we don't have enough logistic capacity to meet all our clients' demands. Of course, we are expanding. And we can show you that the demand is well beyond the supply capacity we have right now.

**A - Unidentified Company Representative**

And our logistics operations are not dependent on a few exports because, as you know, Brazil is an importer of coal. So we transport coal from the port to the steel mills. And we transport these two products inside the country.

For instance, when CSC [ph] started producing hot-rolled coils, we started a program to transport these products HRC from the CSC plant at Tubarao to Sao Paulo, to the domestic market, plus -- so we are not depending on a few exports for growth.

And we have several other source of growth in the logistics business. In the agricultural business, mainly with soybeans, in the (inaudible) materials industry, intermodal transportation with several products like rolled bars [ph], cars and so on.

**Operator**

Daniel Altman, Bear Stearns.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Congratulations on the great quarter and the very good disclosure in your press release. Two questions. One is, on the aluminum business, I guess, on an annualized basis, you were running about 20% above the nominal capacity, at 2.4 million tons. Was there an explanation for that, or is there -- I guess, how do you explain that, would be the best question.

And the second issue is, when you were in New York recently, you talked about a series of foreign projects that you were looking at -- Mozambique, Chile, Peru, et cetera. I am just wondering if those plans may change now, with the BNDS [ph] back into your controlling shareholder group.

## Operator

Excuse me. CVRD's conference call has been interrupted for technical reasons. Please hold on. And we will soon resume the conference call. Thank you. Mr. Fabio Barbosa, please go ahead.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Sorry, Daniel, for the interruption. It was not me, I can assure you.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Well, it may be the BNDS.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

I don't believe that, as well. Well, we will try to recover the full line here. But on your question, we're operating already at 100 and almost 200, slightly over 200 per month. We have, right now, a sort of testing the capacity of the plant. We are intensifying our efforts. And trying to enjoy the good market momentum. But at the same time, testing the equipment.

Of course, at nominal capacity, we are counting 2400 -- 2.4 million tons per year. But if this sort of testing we're taking now proves consistent, we can, over time, of course, reassess our nominal capacity to a superior level. But right now, you should count only on 24 or 2.4 million tons per year.

**Q - Daniel Altman** {BIO 1855515 <GO>}

Okay. I'm not sure if you heard my second question.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

No, I didn't.

**Q - Daniel Altman** {BIO 1855515 <GO>}

I kept talking; I didn't hear any response. My second question was, when you were here in New York, you talked about a bunch of projects, foreign projects that you are looking at in Mozambique and South Africa, Chile, Peru, et cetera. And I was wondering, with the return of the BNDS into your controlling shareholder group, if you think the projects outside of Brazil will be shelved.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Will be what? Sorry?

**Q - Daniel Altman** {BIO 1855515 <GO>}

Will be eliminated.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Daniel, we have been looking around the world for growth opportunities in several countries, as I mentioned. We are present in Chile, in Argentina. And Peru. We are present in Gabon. We are studying Mongolia. So we are everywhere. And we find a few months ago -- it is important in this -- and there was an understanding to explore potential investment alternatives in Mozambique.

And there is a find a few months ago. And we are looking into there, as we look at all other investment alternatives. We are disciplined. We are extremely careful. And the fact that we have a stronger participation of a shareholder does not mean that the strategy will be changed. Our strategy was approved by our shareholders. It is being implemented. And we believe -- (inaudible) hello? Hello? Daniel, can you hear me?

**Q - Daniel Altman** {BIO 1855515 <GO>}

Yes, I can't.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

So we believe that this strategy has been recognized by the market. And there's no reason to change. So we are looking around and investing when we think it is appropriate.

**Operator**

Mr. George Bernstein with Dorche [ph] Inc.

**Q - George Bernstein** {BIO 2432241 <GO>}

Congratulations on the strong results. I have two questions. The first is, if you could just clarify what was the amount of third-party volume sales done in the Third Quarter of '02. So I could do a year-over-year comparison?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Last year, if I'm not mistaken, the total acquisition package was about 7 million tons. And it was mostly acquired in the second half because the usual volume, it is about 2.5 to 3 million tons per year. So for (inaudible) purposes, as you know. So the extra.

And this coincides with very strong performance of the Simone [ph] segment in the second half, was let's say half of the 7, maybe 5 million tons in the second half of the last year. That would be more concentrated in the Fourth Quarter than in the Third Quarter of '02. I am just giving you some guidances here. I don't know the actual figures here with me.

**Q - George Bernstein** {BIO 2432241 <GO>}

Will, when you do get them, would you mind just may be e-mailing those to me?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

No problem.

**Q - George Bernstein** {BIO 2432241 <GO>}

My second question was just trying to understand the impact. You mentioned in your press release -- again, which was very detailed. So I appreciate that -- something about \$15 million of delayed pricing which was carried over from the first half because there was a retroactive price increase.

And I just trying to understand, of those 50 million, did that hit your Third Quarter results at a 100% EBITDA margin, because it was all that deferred price increase, or with that also on an accounting

basis prorated properly? Just -- I'm trying to understand the sharp spike up in EBITDA, how much of it was a one-off and how much was recurring.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Let's say the \$58 million, that did not belong to the Third Quarter. So we'll have to take the amount in order to calculate the actual results.

**Q - George Bernstein** {BIO 2432241 <GO>}

So when I'm asking is, of those \$58 million, were they booked at 100% EBITDA margin in the Third Quarter?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Could you repeat? Sorry, I didn't hear.

**Q - George Bernstein** {BIO 2432241 <GO>}

The \$58 million, was it booked at 100% EBITDA margin?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

I'm sorry, John. I have some hearing problems here as far as the phone. Could you, please? Again, I'm sorry about that.

**Q - George Bernstein** {BIO 2432241 <GO>}

Okay. If you try to normalize the Third Quarter results, would it be correct to subtract \$58 million which was EBITDA derived from the first half price increase? Is that a correct assumption?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

That's difficult to say. Again, we have problems here with the equipment. But the overall effect for this year was a price increase (inaudible). As you know, the European clients, they get the price increase. And retract it to January 1.

And our Asian clients later the 1st. The overall impact of the 9% increase average of our prices would be around \$200 million this year, including the effects retroactive to the first half of the year to the European clients. And in the Second Quarter of the year to our Asian clients. And I don't know if this answers your question.

**A - Unidentified Company Representative**

Answering to our initial question, to the Third Quarter '02 acquisition of iron ore from small mining companies was not an issue. And we acquired only 1.4 million tons. The acquisition of more substantial amounts starting in the Fourth Quarter '02 weren't the situation of excess demand in seaborne trade arise more substantially.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Did you get the issue of the EBITDA for the (inaudible), or not?. Do you want to make it more clear?

**Q - George Bernstein** {BIO 2432241 <GO>}

Maybe I'll just follow up after the call. I don't know to take a disproportionate amount of time.

**Operator**

**Q - Katie Blacklock** {BIO 17145068 <GO>}

My question relates to the iron ore and pallet pricing. You talk about a pallet price of \$36.64 on average for the quarter. And looking at the revenues from pallets and the volumes that would imply a price of \$37.40. And likewise, there's a small discrepancy on the iron ore price.

Does this relate to the \$58 million in revenues that have been booked in this quarter, relating to the price increases that have been put in retroactively, or is there some other reason that there is that difference?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Well, you are right. It's just the adjustments for the retroactive effect.

**Q - Katie Blacklock** {BIO 17145068 <GO>}

Okay. I have just a second question on the aluminum side. Again, on aluminum the implied price would be \$1500 a ton against your stated price of the quarter of \$1407 a ton. Can you just explain the difference there?

And if it is near the 1500 that would suggest that alumina is now pricing down at 13% of aluminum against the 15% that we have been seeing for the first half of this year. Is that a trend that you expect to see through the balance of the year?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Well, we are expecting the aluminum prices to follow suit, respective of the world economy. In fact, they are showing a rising trend. We expect our revenues to reflect that as well as the price increase in production, as we commented.

**Q - Katie Blacklock** {BIO 17145068 <GO>}

Okay. Going back to the discrepancy between the stated price of \$1407 a ton and the implied price of \$5000 a ton. Can you just explain that difference? I'm using the 81 million in revenues from aluminum and the 54 million metric tons.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Kate, I have to check that to give you a precise answer, if you don't mind.

**Operator**

Mr. Thomas Denelesosa [ph] from the Merrill Lynch.

**Q - Thomas Denelesosa**

I have two questions. First one, could you elaborate on the outlook for FCA [ph]? Especially because it appears that the company is reporting significant losses on the operational cash flow line?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Well, (inaudible) capitalization. And in fact, what happened is that the concession cost is too high. So we are analyzing alternatives. But we have to wait for the authorization of ANTT for the increased participation of CVRD (inaudible) that was granted just last September.

And now we are analyzing in which way we can optimize the capital structure of FCA, given the negative impact it has on the EBITDA figures. As you saw in our press release, it was \$6 million reduction this Third Quarter. So that's what we are analyzing right now. But we haven't taken any decision as yet.

### Q - Thomas Denelesosa

So we should expect around 19 to \$20 million in EBITDA reduction in the Fourth Quarter?

### A - Fabio Barbosa {BIO 1907620 <GO>}

That's is up to you. You have to make your own projections. And you are certainly very good at that. But we're looking at the problem on a more structural basis. As we tried to show in our press release, the general (inaudible) of business is growing very fast. It has a structural deficiency of capital that we're trying to solve.

But it has been growing at rates that are above the GDP growth rate in the last few years. It has a very good margin. And it simply has a weak capital structure that should be addressed in the future.

### Q - Thomas Denelesosa

Is there any way you can disclose FCA income statements so that we can project better the improvement that might recur with the reduction on the concession?

### A - Fabio Barbosa {BIO 1907620 <GO>}

We can try to improve the disclosure of information of FCA. We made a major effort this month to consolidate the this in this press release. But of course, there's always room to improve the way we present our information. And this would be an alternative to give that information to the market.

### Q - Thomas Denelesosa

And I second question probably relates to the maybe capital expenditures for this year. Excluding acquisitions, they are running substantially below budget. And I'd like to know where you expect for year CapEx to be at year end. And possibly, if you would give us a sense of net debt expectations, as well for year end?

### A - Fabio Barbosa {BIO 1907620 <GO>}

Well, we have a strong expectation normally the second half of the year. And I think it's still a little bit early to say that there will be a major discrepancy between what we said, that we would see in terms of capital expenditures.

If you look at the figure that we announced in the beginning of the year. And the final figure that we're going to present, it is a similar concept. Because the \$1.6 million imputed to the business and projects of other companies that were not consolidated fully (inaudible).

But anyway, you are right. We are slightly below our initial projections. But again, I can't tell you by how much this would be, due to the stronger execution we usually observe in the second half of the year.

As for net debt, this month of October we had repayment of our dividends to our shareholders. That will be consuming our cash position. And we should get closer -- we should have smaller liquid assets position by the end of the year, as we are not (inaudible) as yet going to markets, the national capital markets. But a comfortable position in terms of net debt and debt to EBITDA as we're going to have more flows of (inaudible) altogether.

**Operator**

Paolo DeSoto with (inaudible).

**Q - Paolo Desoto**

Congratulations on the good results. I have two questions. One is regarding the volumes of pallets. In the last quarter and last year, you delivered more than 6 million tons of pallets.

And then the number dropped to 5.5, -- that was the number of this quarter. What's happening in terms of volume for pallets, considering the tightness of supply-demand in the market? Why you're not increasing significantly your delivery of pallets?

And the second question is regarding SG&A that significantly improved this quarter. You (inaudible) 4% of your net revenues in the First Quarter this year drop to 3.8 in the Second Quarter. And now it came up to 5.2% of revenue. I would like to understand what's happening on the SG&A.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

For your question on pallets, actually, there is a reduction compared to the Fourth Quarter of '02. But there is an increase compared to the Third Quarter of the '02. There is no basis for a major increase there.

Pallets, as you know, they are more demanded when the markets are more tight. So, as we see it, we have the same profits here. The pallet production (inaudible) have been performing extremely well on a sustained basis since the beginning of the year.

Of course, with some seasonal adjustments, the Second Quarter pallet delivery for '03 was 5.2. But now we went up to 5.5. We think that's a good performance. And one cannot say this is a sign of accelerating demand for the iron ore markets.

**A - Unidentified Company Representative**

If I may add, last year under the West GAAP method, we sold 17.9 million tons of pallets this year for the whole year. And this is the first nine months of the year. Under the West GAAP method we sold 16.8 million tons. So for the whole year, it's very likely that we're going to sell more than 20 million tons. So (inaudible) year over year.

And the fact is that our pallet plants of our joint ventures are operating at full capacity. And there is (inaudible) when the demand is weak for the pallet plants. We have two options -- to shut down the pallet plants. There is so all then working at full capacity. And the second one is buy pallets from the JV to sell to our clients, because our partners are not demanding pallets.

The situation now is that they are filling all their stake in the pallet plants. And there is no room for buying pallets, more pallets from the JVs to meet the demand for our clients. If you look to our JVs or the other JVs, (inaudible) all of them are selling much more pallets then they sold last year. So there is no weakness in the demand for pallets around the world.

**A - Fabio Barbosa** {BIO 1907620 <GO>}

And as for second question on SG&A, if sales cannot increase the sales expenses -- it's about \$18 million, the single item. Then we have the consolidation of SG&A in (inaudible) the sort of figures of SG&A. That would explain the change in our (inaudible).

**Q - Paolo Desoto**

So this level is recurrent?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Yes, yes.

## Operator

Mr. A. J. Arias, Goldman Sachs.

**Q - Alberto Arias** {BIO 18302585 <GO>}

Just a quick follow-up on the consolidation of your subsidiaries. There was a lot of talk when you acquired (inaudible) operational synergies that you were going to extract. If you could please update us in terms of where you are in the extraction of those synergies. And what further to go? If you could quantify any cost reduction opportunities that will come from synergies going forward?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

I think the major synergies you can get now is that we see an optimizing capital structure that was not possible to do in the (inaudible) structure. You saw that just last Friday we announced the conclusion of the transaction with CSN in which we sold our state.

We (inaudible) CSN, the northeastern railroad. And we brought them out of FCA. And now we have 99.99% of the total capital. So FCA -- we can think now of a structural deficit of the capital structure that we could not take before.

As for (inaudible), we always said that the synergies we wanted were mostly related to be the (inaudible) synergies where we just concluded the (inaudible) in the month of August. And the synergies have already been captured; they are over. And on that present value basis, they are over \$100 million.

**Q - Alberto Arias** {BIO 18302585 <GO>}

Arias: And just one final question on the power rates in Brazil. You have to renegotiate your power contracts with (inaudible) and that has been an ongoing issue, very important for the aluminum sector. Where do you see the power rates going? And are you close to finalizing some definition on those contracts?

**A - Fabio Barbosa** {BIO 1907620 <GO>}

Well, no, we're not closed yet, although we continue to be modestly optimistic about the possibility of reaching an agreement with the government on the new contract. I think it's just logical. You see, we have the boxide [ph]. We have very competitive aluminum (inaudible) expansion.

And we also have energy. So it is just a matter of getting agreement that is reasonable and satisfactory for both parties. And I believe that this is possible. Meanwhile, we keep looking at opportunities, alternatives, to provide this energy. Frankly, I do believe that we will be able to reach an agreement on that.

## Operator

Mr. Fritz Longcar [ph] from Fleet [ph] Capital.

**Q - Mr. Fritz Longcar**

My questions have been answered. Thank you.

## Operator



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

## **A - Fabio Barbosa** {BIO 1907620 <GO>}

Again, I would like to thank you all for attending this conference. And as usual, we will be available for further questions. If you may have them, you can call up myself or my colleagues here. We will be ready to try to answer your questions. Thank you, very much. And until next time.

## **Operator**

That does conclude our CVRD conference call for today. Thank you, very much for your participation. You may now disconnect.

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