

Q4 2006 Earnings Call

Company Participants

- Eduardo Bartolomeo, Executive Director, Logistics Division
- Fabio Barbosa, CFO
- Jose Carlos Martins, Executive Director
- Leonardo Moretzsohn, CFO of CVRD INCO

Other Participants

- Ethan Silverman, Analyst
- Felipe Hirai, Analyst
- Jorge Beristain, Analyst
- Roger Downey, Analyst
- Rudolfo de Angele, Analyst
- Unidentified Participant, Analyst
- Victoria Santealla, Analyst

Presentation

Operator

(technical difficulty) at the investor relations link.

(Operator Instructions).

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 factor.

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 question and answers.

Also in Rio de Janeiro is Mr. Eduardo Bartolomeo, Executive Director, Logistics Division. And in Bella Horizonte we have Mr. Jose Carlos Martins, Executive Director. In Canada Leonardo Moretzsohn, CFO of CVRD Inco.

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

Fabio Barbosa {BIO 1907620 <GO>}

Thank you very much. Good afternoon, ladies and gentlemen. It's a pleasure to be there today with our beliefs to comment on the performance in 2006. And also to share some thoughts on the factors of our industry and our company.

Let's -- let us start with the first section that I like very much the name of this section, the title, "A vintage year" because it summarizes very well what we think it was 2006 was a year [ph]. In fact, as you can see in our first slide, we became the second -- the world's second largest metals and mining company and we came a long way from 2001 when we implemented our long term strategic plan.

We had a market cap by December 31, 2001 of \$9.2 billion and we reached \$79.2 billion at the end of February. A similar market cap than what we observed yesterday. So we, again we came a long way, we are very proud and it's -- in our view, it's a result of the success of our strategy design back there in 2001 by our shareholder that implemented with very -- in a very forceful manner by our company. So we are happy with our achievement. That represented a TSR of 42.7% better than 2001 in year 2006.

We now are actually a global diversified mining company as we promised back there. Some of you may recall that during the offering of the ordinary shares by the treasury in the NDS, our main statement was that we would be investing to become a global diversified mining company. And that's precisely what we delivered and what we believe that's why markets appreciate us so much doing the last few years. So now we have 60% of our asset base in Brazil and 27% in North America and 5% in Asia, Europe and even Australia. And the portfolio is much more diversified with adding iron ore and the ferrous division. Today we have now copper, we have coal, we have nickel and a much bigger, a much larger alumina chain [ph] placement. So we are achieving what we aimed at back there in 2001 -- early 2001.

In 2006, we believe we had a very impressive operational performance despite all the difficulties, as you know. And Martins and Eduardo will make comments further on that. But we are -- with our systems stretched to their very limit. So despite that we were able to increase our iron ore production by almost \$30 million last year for \$264 million alumina production, 53.2% increase. Alumina, marginally it is up 2.2, which is impressive considering the original aluminum capacity of the plant.

Copper, including Inco on a pro forma basis, 12.8% and nickel 13.5%. We are becoming the the largest producer of finished nickel in the world.

Earnings and operating margins remain on an upward trend as we put there and we reached 43.7% in the Fourth Quarter of '06. Again, departing from almost 25% in 2002. This result of course, had to do with the very strong development in the underlying [ph] mining market. But also to the capacity that we had during this period to make the right choices in terms of the investments and searching for the best opportunities in terms of expansions, both brownfield and greenfield. So this is no accident. So the market is very

good. But we managed to enjoy a very impressive increase in our margin due to the decisions that we made during the last few years.

Also, the Fourth Quarter of '06, we observed the 19th consecutive quarter of growth in our EBITDA with -- if we adjust for the extraordinary effect of the Inco inventory adjustment we would have reached \$10.1 billion in our EBITDA in 2006, in the last 12 months ended in 2006 [ph], those are impressive figures.

Out on the cost side, something that we brought to your attention just last quarter, we are starting to see some results, initial results but meaningful ones. If we look at the cost of goods sold and we take out the depreciation, which is a non-cash item as a result of the increase in our efforts [ph] in a way. In order to check more clearly what's our actual effort on the ground to reduce costs, you'll see that it's in the first and the last quarter, we already got some \$67 million in cost reduction. So we are not happy yet with the result but it was important step forward in our view.

In terms of the results, on a year on year variance, we also indicated progress. Of course price is very important driver. But we also made an impressive move in terms of volumes. So \$150 million in our EBITDA on a quarterly basis associated with the increase in our production as we showed previously.

Iron ore shipment also reached a new all time high and we reached \$276 million in shipments. That compares to 255 million tons in 2005. Sorry, 276 million tons of shipments against 255 million tons in 2005.

And look at the figure in 2001, 148 million tons of shipment. So this is a major challenge to put all this production together and ship to our clients, given the constraints that we faced, given the varied [ph] increase in production that fueled the last two years that occupied -- due to the order capacity that we have in port and gray boats [ph] so we are investing heavily in order to keep on expanding our capacity but the challenges are immense.

And at this point, I'd like to have Martins commenting, Martins on the difficulties that we had in the last quarter of 2006 associated with the -- anticipated rainy season and the difficulties we had in terms of transportation. Also Eduardo is invited to comment. If you could please, Martins, if you could.

Jose Carlos Martins {BIO 1715332 <GO>}

It's okay. Last year the seasonal rain started in September, normally it started in November. But last year it started in September. Mainly in the southern area. So the situation brought a lot of problems in the transportation system, not only in the mines.

I think that Eduardo can talk a little bit more about what's happened in the transportation area also.

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Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes. What happened between November to December, from the 3 last months of the year, although February's been very nice. So that's the good news. They were very, very heavy and the system feels [ph] a lot about -- even because what Fabio just say it's really stretched. I think although we have this problem, the level of investment and the precautions we took years ago -- we started three years ago, let us face it in a very proper manner. But was a hurdle to overpass.

Fabio Barbosa {BIO 1907620 <GO>}

Yes. So despite that, we are able to ship -- to produce 264 million tons, we said. And to ship, 276. But the challenges we have there and we hope to overcome them this year.

An important mention -- I would like to mention also that we became the largest supplier, individual supplier of iron ore to China. It was a remarkable achievement of our company last year. We shipped almost 76 million tons in 2006 against almost 16 million tons in 2005. Almost 5 times the volumes we saw in 2001. So we had sales -- our market share in China also increased despite the distance. So our market share reached 23.2% against 16.5% in 2001.

Our next comment is trying to look at our track record to analyze what we've done and it's nice to make this comment that portfolio management has been an important source of value creation. When we look in perspective, with respect to our investments we see that acquisitions, we acquired assets at a total of \$25.1 billion. At the same time, we sold almost \$3 billion in other assets that either won't core or are not relevant to our new strategy. And the result of this move was a consolidation for iron ore leadership. In 2000, our share in the seaport trade was about 19% and last year was around 33%. So we became the number one producer of nickel, that's a major achievement and diversified ourselves. And we are creating a new growth platform with coal. So I think, again, we have been extremely consistent in the strategy we outlined back there five years ago and again, I believe that's why markets are recognizing this value in our company, consistency base.

So on Inco, our largest acquisition so far. The progress report that we can present is that there's a new management team fully operational, Leonardo Moretzhon is today in (inaudible) presenting CVRD Inco's new team, Murilo Ferreira, the CEO is traveling with our CEO, Roger Agnelli, throughout Asia. So there's a new management team. Goro is under comprehensive review and as we put there, we believe it's a very important project, our CEO visited the project twice in the last three months, showing the importance that we give to this project. So we will go ahead with that if the other conditions are in place, it's in our best interest to go ahead with that. We will work with the community and try to address their concerns and also to create value to our shareholders. So it's -- we have a positive expectation about Goro project.

Synergies at Sudbury basin we already captured some with the agreement, operation agreement that we reached with Xstrata with \$200 million per year of synergies that already there that we got in this discussion and agreement that we reached with Xstrata.

We also have a global mineral exploration and procurement team now, integrated one. And we do believe that we have some potential to increase our already large nickel reserve. At this point I'd like to ask Leonardo Moretzsohn, our CFO of CVRD Inco to comment on integration process of CVRD Inco with CVRD.

Leonardo Moretzsohn {BIO 15216920 <GO>}

Okay. Good afternoon, ladies and gentlemen. We held, let's say a 90 days knowledge share period here in CVRD Inco after the acquisition and the result of this was very positive. Inco has by far the largest reserve in nickel compared to the competitors and also the best portfolio of projects, which will allow us to increase capacity in the near future. So we are very optimistic about this strong platform for growth in the nickel and base metals. That's it.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you. As for the financing, the funding of the acquisition, some update for you. We are scheduling the full repayment of our bridge facility for the Second Quarter of this year. We refinanced it with pre-export finance, \$6 billion transaction. The bond issuance, last year, \$3.75 billion. The debt was issuance in the domestic market, it was a remarkable success and on the chart [ph] there's 2.35 billion. We managed -- we also managed to preserve our investment grade rating by all the 4 major rating agencies and the next page explains you why.

Despite the increase, the sharp increase in our total debt, the fact that that -- we managed to stay within the limit of 2 times EBITDA/gross debt -- gross debt/EBITDA, sorry. So and besides that, we improved the profile of our total gross debt with an increase in our average maturity and a reduction of total costs. And this debt, of course is all verse dated [ph] because we had more liquidity as you saw in our release, our net debt was around \$18.1 billion. The reason being that we wouldn't have -- we would pay for the remaining shares of Inco, early January -- on January the 3rd. so we paid almost \$2 billion there. And we also -- we will use part of the liquidity that we have by just -- the server [ph], to repay the bridge facility as we commented in the previous page. So we are very much in line or even better than anticipated in terms of our leverage at the end of the year.

In terms of the results of the acquisition, I'd like to highlight the improvement in our profile in terms of diversification. In terms of operating revenue, if we look at CVRD stand alone, we would see the ferrous division with 71% of our total revenues. Now, with the addition of CVRD Inco, Ferrous division is representing 50% of our business and the non-ferrous, it's about 26 -- 36, 33% -- 35, 34% and aluminum 9% and so it's a much more diversified company that we have now. Again, delivering what we promised.

And if we go further, in terms of the -- in further detail in the division, we see that within that 50% of the ferrous division, iron ore is responsible for 79.1%, almost 80% of the total revenues and the EBIT margin 47.3 in the year 2006. And in case of nonferrous, nickel is almost 77% and copper 16%. So it's a very similar profile in terms of diversification within the same unit. And also similar in terms of the EBIT margin. The EBIT margin 2006 of the

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nonferrous division, let's say, was 47, 23%, precisely the same of the one that observed in the ferrous area. And if you go to the aluminum products, we -- next page.

Aluminum -- alumina 50.1%, bauxite 1.2 and the aluminum 48.7. Of course showing you our effort [ph] was on the upstream of the aluminum chain and the margin 39.5% despite the increase in energy costs. Logistic services, railroads 72%, ports 18.4% and shipping 9.4% we carried through the year, just general cargo, third parties' cargo. And EBIT margin improved sharply from 2005 from 22% to roughly 29% in 2006.

With that, the -- that's we are able to show very strong return on invested capital. After the 64% we reaching 2005, with the increase in asset bases we reached 47.4%, was a great mark and we keep our returns well above the 40% line.

We are also positioning ourselves on future growth with a CapEx of \$6.3 billion in 2007. Again, more than 70% focus on growth. We would like to remind you that we delivered in the last few years, five years -- four years, 19 major projects. 19 major projects and Carajas is now running at 100 million tons, the latest, Paragominas as well will start up very soon. So we have been able to accomplish what we indicated several years ago due to the discipline and the -- as reported the discipline in capital allocation, the consistency in our strategic plans and the financial flexibility that we have been enjoying. And recent acquisitions provide new growth options in nickel and coal.

And I'd like to call attention to what we are doing in coal with the AMCI outside the acquisition that is taking place. World-class assets increased on the north south layers in Australia, increasing our presence there in Australia, potential new capacity of 8 million tons per year being coking coal 81% of the total. Exploration assets in the state of Queensland and efficient logistics that we have available with this asset. And again, we are in what our colleagues (inaudible) have called the Carajas of coal. So this is very important achievement to be there. The price, AUD800, AUD835 million Australian.

Projects in Moatize, Mozambique and Belvedere in Australia. In Moatize we hope to have the final feasibility study concluded by the end of this semester. And Belvedere, Australia we are working very hard on the pre-feasibility, very good initial indication.

And the projects we have in China, or the investments we have in China, Longyu and the Yanjuang. And so far in equity income, after one year or 1.5 years investment, we already got \$35 million so almost repaying one-third of our total investment of \$111 million. So we are very happy with coal business and happy with our portfolio of projects for the next few years with the exploration in Carajas, 130,000 tons. Itabirito -- Itabirito is a market of of decided [ph] layers and the expansions in the aluminum chain with Paragominas and Alunorte 6 & 7, the nickel project and finally the copper projects 118 and Sabolo.

Turning to the next section. Very important comment in terms of our effort to reduce accidents in our company, in our group, it's a very key concern that we have in our group. So -- and we are very happy to show that we are making CVRD a safer place to work with the accident per 200,000 working hours were reduced by -- to one-third of what they were in just four years ago. So we are very happy with the outcome. Although we are not

completely happy because accidents are still there. But we are working hard to reduce even further this mark that we managed to achieve.

And we are also making our trains safer with accidents and in millions of trains. We sharply reduced in FCA and the itoriminas [ph] keeping a very good standard -- operational standard at Carajas. At this point, Eduardo, you want to make any comment on that?

Eduardo Bartolomeo {BIO 15365202 <GO>}

Just to remark, what you just said about the -- we're very proud of what we've been doing through FCA. I think we've been able to keep although the increase we just said about the increasing capacity, the traffic in our main lines, or heavy haul lines. We are the safest, one of the safest in the industry worldwide. So we're very proud on that.

Fabio Barbosa {BIO 1907620 <GO>}

Oh so the environment. We invested heavily in 2006. And we did a more ambitious budget for 2007, with \$190 million. And we made a large provision that you may have noticed for future mine closure and the construction of dams and this large provision is a result of a long term auditing process. We implemented a round of this auditing process in 2001, if I'm not -- 2001 if I'm not mistaken. Then five years later, we reviewed our procedures, our investment, given the size of the company and we decided to increase the provisions to improve further our environmental (inaudible).

In terms of the outlook for our industry, we expect global GDP growth to remain above 4%. It will be the fifth consecutive year. So a very positive environment for the world economy and we -- in our view the risk to global growth -- there are risks of course. But maybe the volatility of the last few days are somehow exaggerated.

We don't see any sign of spillover of the US housing downturn that's a reality to other sectors or other markets, let's say.. It may be some adjustments but the US economy is extremely resilient and the global industrial production growth is slowing down a little bit. But more to produce inventory adjustments and to resume growth very shortly, considering that what we indicated at the (inaudible) are showing increase of the ratio of new orders/inventories. So it's a very good sign and we don't see any sign of deceleration.

Turning to the next page. And I would like to ask Jose Carlos Martins to comment on that. We have the iron ore spot prices remaining above -- well above the benchmark prices, signaling, in our view, excess of demand. Martins, could you comment on that please?

Jose Carlos Martins {BIO 1715332 <GO>}

The price expectation [ph] in the iron ore market is very positive. If you remember, last year when we made the same conference call, some people were concerned about the iron ore production in China. Some people were concerned about the freight costs to

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China and all of those things. But what we can see now is on despite of all this factor, the market continues to be very strong and the Chinese are buying all the iron ore they are able to buy. So the situation continues very much of the same for three years in the hole. So -- and we don't see any big change in the next two years. So in -- neither in the price and also in the market conditions.

The new tax that the Indian government put on exports is putting some additional pressure in demand for our iron ore and so for us the biggest task for us is really to streamline production and to get things done on the mines, on the railway, in the ports and also in the shipping sites. Where we are facing some difficulties because we have some kind of lack of ships and we are seeing that as freight prices are skyrocketing. So we are addressing this point. It is a very important point for us and we are addressing this point in trying to interfering a little bit more on this situation. So we are looking for long-term contracts. We are looking for buying ships we are now looking for converting some oil tankers in ore carriers. So we are looking at a lot of alternatives in order to improve the freight situation.

And for sure, our main task for getting the results this year will be at home. Producing the mines, getting the iron ore to the ports and shipping it and getting it to the customers. This is our main task because the markets there, the price is there and all the good conditions are there. So its mainly operational task to reach our results this year.

Fabio Barbosa {BIO 1907620 <GO>}

So at this point I'd like to ask Eduardo Bartolomeo to comment on some measures we adopt in our northern system to increase our transportation capacity recently.

Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes. We anticipated the longer train, it might -- someone of you might have heard about it, the more the operation model that we're going to use as an expansion to increase our infrastructure capacity to about 190 million tons is to operate larger trains. We had a very brilliant idea actually from our arcolise [ph] inside operation department. Decided to anticipate so we grow with an even longer train of 340 wagons and come back with 2 smaller trains of 170. This gives more or less like 5 hours on our cycle. That's going to release a huge amount of capacity in the traffic that is already congested as Martins just said.

So this one is -- how and why we can do that, because all the equipment are here, the locals, the wagons, the automation controls that are needed for that. And we are using the sideways that have already been built along the year. So there are like 10 already being built -- already built. The other 46 are being built this year. So we profit that. So we got like a whisper [ph] or whatever from capacity that we are taking care of -- how can I say of taking profit this year. That's a good news for an off season.

Fabio Barbosa {BIO 1907620 <GO>}

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So as we comment, the challenge is to shift because the market is there and turning back to the presentation see that there are other signs that we put there -- there are other signs of strength coming from China -- steel production growing very strongly, generate 27% on a year on year basis and construction activities resuming strong growth and iron ore inventories at a very low level, less than one month of construction.

Our medium term view, as Martins put it is very positive. We believe that demand could grow as much as 9% per year from 2006 to 2007 from a very large base. The import the Chinese -- the Chinese imports reached 325 million tons last year so, 9% would be roughly 30 million tons per year of additional quarters [ph], a large addition every year. If the Chinese economy top lines [ph] with this forecast. So global capacity explosion is another important aspect, as Martins put it, we are stressed with our systems at full capacity -- operating at full capacity. So global expansion, we rely more and more in higher cost greenfield projects. Not only in terms of mines -- mines that must be opened. But also in terms of logistics. And the Indian export growth is expected to lose steam as it did in 2006. So -- and then recent taxation of the Indian export are a very corporate [ph] side of allocation of the domestic -- or to domestic needs.

As to nickel, the nickel market investments remain at a critically low level. All inventories measure to the -- the inventories are measured now in hours of construction so in the market, the markets remain very strong. Demand is there, steel production is growing, stainless steel is of course growing everywhere.

And now there is a structural change in nickel supply, current production depends on sulphide deposits and what's available for expansion are the laterite deposits. So there is an issue there that it's not easy to be solved, to be addressed. We ourselves, we're investing heavily in new projects as we commented before. We have Onca Puma expected to start up in the last quarter of '08. But that the fact is that demand is not waiting for the real supply to come to the market and demand is already there and the markets should remain tight for some years down the road. We don't see any room for any stock replenishing, meaning that the volatility, the good volatility of the nickel price should remain this year as well.

The medium term view, China will drive global stainless steel production increase with India also growing fast, in our view. They are trying to catch up. They showed -- India showed a very impressive growth rate last year, above 9%. They have been flagging with this India possibility as a major drive in the market for some time now. I think it's becoming clearer for more people that India will actually affect market raw materials in several ways.

There are very important challenges in terms of substitutions of nickel, importantly in steel production so it's something that reduces the elasticity of the demand of nickel in the long term. And the solid demand growth from aerospace, energy and rechargeable batteries of course associated with the benign scenario that we see for the global economy.

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Copper, copper market, there was a -- prices came off a little bit. But still have very, very strong position yet when compared to that low level [ph] and China resuming growth of its import. So we believe that it should -- prices should remain a very -- in a very strong position in the next few years as well.

And despite the softness in the US consumption, the global aluminum markets remain very tight because it's also used as a substitute for copper in some uses and is port circle [ph]. So it's a very benign scenario for our company's products in 2007 and finally, we'd like to give you some ideas about what we expect in terms of production increase for 2007 compared to 2006.

So we believe that we'll be able to produce 300 million tons of iron ore in total [ph] in 2007, a 13.6% increase of iron ore. Nickel from 251,000 for this year, we hope to produce 287,000 tons in 2007, 14.3% of increase of production of finished nickel.

Alumina, 4.4 million tons. Meaning that we should operate Alunorte at full capacity with a 12.8% increase. Aluminum, primary aluminum no increase in production expected unless we manage to find a new opportunities for marginal increases. And copper, 11.2% growth and production reaching almost 300,000 tons to this year of 2007.

And with that we conclude our initial remarks and we are happy to take any questions you may have. Thank you very much.

Questions And Answers

Operator

Thank you, ladies and gentlemen.

(Operator Instructions).

Our first question comes from Felipe Hirai of Merrill Lynch. Please go ahead.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hi. Good morning gentlemen. Congratulations on the results. So I have 2 questions here. First on the synergies regarding Inco and Xstrata, the CVRD for Xstrata, could you just comment a little bit more on where are these \$200 million coming from and how are you going to split these \$200 million between CVRD and Xstrata and what you're expecting going forward?

And my second question is regarding the costs because we saw cost margins declining, the iron ore business, if any for just for the restructure [ph] price in the Third Quarter, margins declined from line 60% in the iron ore business to 54%. I just wonder if you have any specific comments on that. Those are my 2 questions. Thank you.

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A - Fabio Barbosa {BIO 1907620 <GO>}

Well okay so this is -- thank you very much for your question. I will start commenting but I will ask Leonardo Moretzsohn to comment also on the synergies there in the Sudbury basin. But basically is optimization of flows, of material flows. And involving our clientele [ph] operation. Leonardo, could you comment on that please?

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

Yes. This results, \$200 million in synergies per annum is result of the segregation of copper and nickel material in the Sudbury basin. As you know, we have a lot of operations in Sudbury, which are close to Xstrata operation as well and then we have a -- we settled some operational and commercial agreement with them that allowed us to separate nickel and copper and out of this \$200 million in synergy, the vast majority belongs to CVRD Inco.. And we have some additional, we have some additional, we are doing some additional efforts to improve this synergy. Okay?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay Felipe. And on your second question we -- as you may have noticed we produced this slide last, as Martins commented before, due to the much heavier rainy season in 2006 than usual. So I -- a smaller volume of production and that may have caused this slight cost in -- if you take out this extraordinary effects of the prices -- the price increase that we observed in Third Quarter of '06. Okay?

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

No more questions?

Operator

The next question comes from Roger Downey. Please go ahead.

Q - Roger Downey {BIO 7419641 <GO>}

Leonardo and Martin, 2 questions, one for nickel the other one for iron ore. With regards to the Fourth Quarter at Inco, we saw very strong sales performance in the two months that were accounted for in CVRD results, we saw 73 million pounds of nickel being sold against 59 million pounds of production in the quarter. So once we equate for the two months, we saw that Inco bought about 15 million pounds of nickel and used up a lot of stock.

Going forward do -- is there still -- how much stock is there still left to be sold? And should we expect Inco to continue with its strategy to purchase large amounts of nickel on the market to on sell?

And the second question would be with iron ore. I think Eduardo mentioned that in the north system they're improving the logistics there, the trains have increased to wagons, what would be the capacity that that would reach in the next few years please?

A - Fabio Barbosa {BIO 1907620 <GO>}

Leonardo, will you take the first one?

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

Yes. Thank you, Roger. We are buying nickel to fuel our customer needs. Okay? It is not our intention to keep this of nickel from parts [ph] in the long run. So just to need -- to fulfill the needs of the customer, which are eager for nickel in the final products. This is our strategies is to increase production to fulfill 100% from our mines. Okay?

We do not have an expectation to keep this pace in the future.

A - Fabio Barbosa {BIO 1907620 <GO>}

And Eduardo, could you answer the question on --

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes.

A - Fabio Barbosa {BIO 1907620 <GO>}

-- capacity

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes. The way we set capacity as when we finish the product on the sideways and operate in the full system of 320 wagons just for this way we go to 190 -- 1-9-0 million tons of infrastructure in the railway. But we can never forget there has to be a -- the part system with rail with the mines. So for the infrastructure of the rail, 190 million. I hope I answered.

Q - Roger Downey {BIO 7419641 <GO>}

Thank you.

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

Yes. Thank you very much.

Operator

The next question comes from Rudolfo De Angele from JP Morgan.

Q - Rudolfo de Angele

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Hi, congratulations on the results. I just have a question on the iron ore side, you mentioned that you expect the market to remain tight in the press release you also mentioned that the new capacity increases should come at higher costs because they're less brownfields, more greenfields. I wonder if you could comment on what you have seen in terms of CapEx per ton of new capacity that's been announced?

And on another note, I'd like you, if you could, just update us on how is the cost cutting effort, the company moving along? What -- if you have anything that you can add to us, what to expect in '07 and '08?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay, Martins, could you answer the first one and help me with the second please?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Okay, relating to CapEx for new project, depending very much up on the geological conditions. But what we are seeing around the world is CapEx above \$100 per ton, if you consider all the logistic needs involved, okay? So in a greenfield project, it will be very difficult to build capacity below this level, which is much bigger than the normal brownfield that we have seen in the last five years which is around \$40, 50 per ton and for some projects that we see in Australia, we can see even higher number, quite near \$150 per ton. So the situation for the new projects will bring the price floor at a much higher level than we see now.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. Thank you Martins. And Rudolfo, as one of our cost cutting efforts we are implementing our efforts and the first results are showed already in our view. I would also add that we are having a lower cost pressure this First Quarter related to fuel costs and oil costs compared to what we were expecting, given the prices -- oil prices that offers abroad. Also we observed some reduction in cost of parts and components. We are discussing with also supply a better arrangement. We signed a contract with Petrobras that should result in a small but meaningful price reduction for our fuel costs in the long term. So there are several initiatives underway so we'd rather show you the results every quarter than make a forecast regarding our future (inaudible), thank you.

Q - Rudolfo de Angele

Thank you very much.

Operator

Thank you, Mr. De Angele. Our next question comes from Jorge Beristain with Deutsche Bank. Please go ahead.

Q - Jorge Beristain {BIO 17554499 <GO>}

Good morning, Fabio, Jorge Beristain with Deutsche Bank. I, I wanted to clarify on the nickel guidance that you're giving for the tonnage production for 2007, I think you're

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mentioning 287,000 tons in your release, how much of that would be third party?

A - Fabio Barbosa {BIO 1907620 <GO>}

This is production costs.

Q - Jorge Beristain {BIO 17554499 <GO>}

So that's 100% production attributable to you and does not include resales from third parties as we saw in the Fourth Quarter.

A - Fabio Barbosa {BIO 1907620 <GO>}

Yes, production finished details.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay, my second question had to do with the rate at which we've seen SG&A climb both year on year and sequentially. You're now at a \$750 million quarterly rate in the Fourth Quarter, which I s annualizing you guys out at \$3 billion of SG&A. I wanted to know if that is a benchmark we should now be using in our models or if you think t hat the Fourth Quarter could have been extraordinary for some reasons.

A - Fabio Barbosa {BIO 1907620 <GO>}

The Fourth Quarter we believe there's some extraordinary charges related to the take over. And we would not annualize that. And also, we are just starting to -- we have a new management being appointed probably in January. And we are just starting our management there. So I wouldn't take that as a good indication for the future. And besides, don't forget about the provision for the environment changes that we have there.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay. And if could just squeak a last question in, just regarding the effective tax rate, obviously your Inco operations are contributing to a much higher sequential tax rate for you, is 24% still a rough benchmark for 2007, or as you're going to see more contribution from nickel, would you be guiding towards an even higher effective tax rate for '07 now?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well as it goes rightly, we should expect an increase of our average effective tax rate as a result of the consolidation of the Inco.

We -- however, with this adjustment in inventories, it has a positive type effect in 2007 and that should prepare for some quarters [ph] yet. So we would observe a lower effective rate for income. But overall, the number you mention is a reasonable -- a reasonable assumption. I'm not saying it's our own assumption but a very reasonable assumption.

Q - Jorge Beristain {BIO 17554499 <GO>}

Thank you.

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A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question, Mr. Beristain. Our next question comes from Victoria Santealla of Santander please go ahead.

Q - Victoria Santealla

Hi. Good morning gentlemen. I have some questions, the first one is regarding the outsource services where we saw an increase of almost 40% in 2006. I want to know if there is any plans to freeze these expenses and what does the bulk of it represent?

And my second question is regarding the currency appreciation, if you can give us an idea of what is management doing in order to minimize any negative impact that it might have in earnings going forward.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. Thank you, first on your outsourced services, the total increase of cost in 2000 -- of this nature in 2006 was about \$420 million. And roughly one-third of it was associated with appreciation of the real.

An in terms of what is there, if you take out the volume effect, two major components explain the remaining increase. First, waste removal service, cost that increased sharply in 2006, \$86 million. And also cost of freight, of transportation for our iron ore, both is very, very -- and also through trucks. So -- and those together represent roughly one-third of the increase in the outsource services.

What we are trying to do with the suppliers we are discussing with them, because we believe that is some cases it's not reasonable what happened in the last few years in terms of cost increase. For instance, Martins is implementing a new idea in terms of fleet to transport our iron ore in the south of system with the smaller trucks. Martins, would you like to comment on this a little bit?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes, Fabio. To -- we are in total -- in reality we are now reducing outsourcing in the iron ore business, okay? We are doing it much more from ourselves and in this case of moving we are putting small trucks because the big trucks, the economies of the big trucks is becoming not so convenient. And we are -- we have lack of tires and so we are introducing the small trucks in order to solve these problems. And we are getting rid of third parties for moving waste.

In reality, we are more and more doing things by ourselves in the iron ore business. So I think going forward, we are going to see a reduction in the third part services in our iron ore business. In this year specifically, we have a much more volume in the MRS railway

system. We ship much more iron ore through the MRS so it increase the third party costs in railway system because we ship much more iron ore for that system. And also because we have an extraordinary increase in the freight rates for that system.

So -- but looking ahead, the idea is to reduce more and more the impact of the third party and to do much more internally, this kind of service because the economic situation is completely different. Cost of capital for CVRD is lower than for third parties and we think that we can operate better. So more and more we intend to reduce third party services in our cost structure.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. And as again you didn't talk of major discussion that we are heading up with our suppliers, try to show that we would expect a different approach from now on as the increase shocked [ph] their prices or their costs over the last few years. And we are following that very, very closely.

Q - Victoria Santealla

Well -

A - Fabio Barbosa {BIO 1907620 <GO>}

Another -- the second question regarding currency appreciation, what are you doing? With the acquisition of Inco, we naturally reduced, narrowed the share of store of real -- of the real in our total exposure to currency. We believe that we should work more on this variable because we -- as we see a very benign scenario going forward in terms of the global economy and the perspective of the Chinese growth and the international liquidity alsowith some adjustments here and there. I would not expect any major depreciation of the real and maybe -- you may even see some appreciation as its acquired in the two -- first few months of the year compared to what we were expecting. We were working with normal exchange rate of R\$2.23 and it's now R\$2.10 [ph] something like that. So it's already 5% more appreciated that we expected at the beginning.

So we should -- we must work with this reality and the answer to your question is we should reduce our exposure to the real. And what we are doing that is synchronizing our global procurement effort in trying to increase the share of dollar related procurement processes and also trying to reduce further our exposure to the real through the relative transaction.

But this is in a very initial stage and we have not major results to show there. Thank you.

Q - Victoria Santealla

Thanks.

Operator

Thank you for your question, Miss Santealla. Our next question comes from Dennis Parisian [ph] with Santander. Please go ahead.

Q - Unidentified Participant

Good morning, everyone, congratulations on your results. My question is on -- I'd like to -- if you could get to -- you could give us a little bit more color. I think you mentioned you plan to repay the remaining bit of the original by the Second Quarter. If you comment on the kind of -- the nature of the transaction that you may use to do that refinancing. If you could comment on that. And if you have any color you can give us on target, debt to EBITDA, net debt EBITDA, coverage ratios for the end of the year. Thanks.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. We are starting several possibilities. As I comment, as we had some liquidity already available to us at our own resources and we will use it. We are starting increase in transactions like the supply credit, that work very well. It's a very, very interesting transaction. Very long maturity, seven years, 8 year. At a very attractive cost. We are starting some other debt instruments but for the time being we have no decision which one we are going to choose as we are not very comfortable position.

As for the indications for the net debt, EBITDA for the future you -- well, we provide you for the first time with some figures for our production for the whole year. So it's up to you to make the FSIs [ph] on prices and make your assumptions and reach your own results. But we did what we could to provide with you the best published. Thank you.

Operator

Thank you for your question, Mr. Parisian. Our next question comes from Steven Barrett [ph] with Nefsky Capital [ph]. Please go ahead.

Q - Unidentified Participant

Hi, most my questions had actually been answered. I just had one question on iron ore production. I was just trying to understand the production Brooker 2 [ph] and couldn't actually see that mine split out on your production report. Could you tell us what the production was at Brooker 2 in the Fourth Quarter? Thanks very much.

A - Fabio Barbosa {BIO 1907620 <GO>}

Martins is going to answer that. Thank you. Martins?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes --

A - Fabio Barbosa {BIO 1907620 <GO>}

The question was on the Brooker 2 production in the last -- in the last quarter of '06.

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A - Jose Carlos Martins {BIO 1715332 <GO>}

In the last quarter, Brooker 2 production was very small, was a near 1 million ton only ok? Because we are in helping up production okay? So was very small, the impact of Brooker 2 last year was very small. For this year, we are now producing in the region of 1 million ton per month and we expect to produce 18 million tons by end of this year in Brooker 2.

A - Fabio Barbosa {BIO 1907620 <GO>}

And this for the new Brooker 2, right Martins, we --

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes. Yes.

A - Fabio Barbosa {BIO 1907620 <GO>}

You have the old plant there working at 1.5 million tons per quarter, roughly.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes. We are talking about the new broker 2 is the new -- with the new processing play, okay?

Q - Unidentified Participant

Was there a delay in the ramp up? Because I'm sure in your Third Quarter report you were talking about production as around 12 million tons for 2004, where in fact it's only been 1 million tons.

A - Fabio Barbosa {BIO 1907620 <GO>}

But that's total production, as well as our strength explain.

Q - Unidentified Participant

Right.

A - Fabio Barbosa {BIO 1907620 <GO>}

There was a delay there in part, yes. But there is more the plant that was already in operation, the old Brooker 2, let's say with the nominal capacity of 6 million tons. So -- and this was, I believe produced last year. Plus, the new Brooker 2, eal all right different part was [ph] means lower than anticipated but the new Brooker 2 that would add, as Martins mentioned, 1 million tons. It will be full operational by the end of this year.

Q - Unidentified Participant

Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

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Thank you.

Operator

Thank you for your question, Mr. Barrett. Our next question comes from Eric Olive [ph] with ING. Please go ahead.

Q - Unidentified Participant

Yes, hi. Congratulations on the results. Just following up on Denny's debt question. If I was to interpret your answer correctly, my guess would be is that you do not intend to bring down the absolute level of debt -- but rather, at least in the near term. But rather grow into improved debt ratios through your growth program. Is that a correct statement?

A - Fabio Barbosa {BIO 1907620 <GO>}

I'm afraid not. We didn't -- not a correct statement. What I say was we indicated what our production letters expected for 2007. Its production that implies impressive growth in all lines of production. And at the same time, we've indicated a very positive global environment for raw material in particular. And so we already announced our investment program and our dividend. So if you'll do the math there you'll see that that's not what I said. To the very contrary, its very likely that you'll see a sharp reduction debt this year.

Q - Unidentified Participant

Okay. Thank you for the clarity.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question, Mr. Olive. Our next question comes from Ethan Silverman with Westford Capital. Please go ahead.

Q - Ethan Silverman {BIO 2314049 <GO>}

Yes. Good morning or good afternoon. I have a question specifically about nickel growth at PT Inco in Indonesia. Specifically the CapEx plans and how much you intend to grow the production there given that its got a lot of potential and secondly if you can make a comment about the dividend policy now that you're running the company?

A - Fabio Barbosa {BIO 1907620 <GO>}

Leonardo? Could you comment on that please?

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

Well okay. We have of course some plans for increased capacity in the Indonesia was what we have in mind today is to increase capacity up 200 million pounds, up to 2010. And also, as you know, we have some agreements with the Indonesian government to exploit some different -- 2 different reserves which is from alionparadopea [ph] which are in our pipeline as well to be developed in the short term. So those are the investment in the production plans for Indonesia. Thank you.

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Q - Ethan Silverman {BIO 2314049 <GO>}

Could you make a follow up comment given the balance sheet and the free cash flow there, what you intend to do a bout the dividend policy please?

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

This is something that we've been analyzing and discussing, we are going to have a position on that by the end of this month when we're going to need these very remaining shareholders there on the board of commissioners. So I have nothing to declare for the time being. But you're going to know about this soon. Okay?

Q - Ethan Silverman {BIO 2314049 <GO>}

Thank you.

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

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>}

Thank you very much for attending this conference, I would like to thank specially our colleagues that joined us in this conference call. And please, if you have any further questions, let us know, we'll be more than happy to answer them.

Thank you very much.

Operator

That does conclude our Companhia Vale do Rio Doce's Third Quarter 2006 earnings conference call for today. Thank you very much for your participation. You may now disconnect.

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